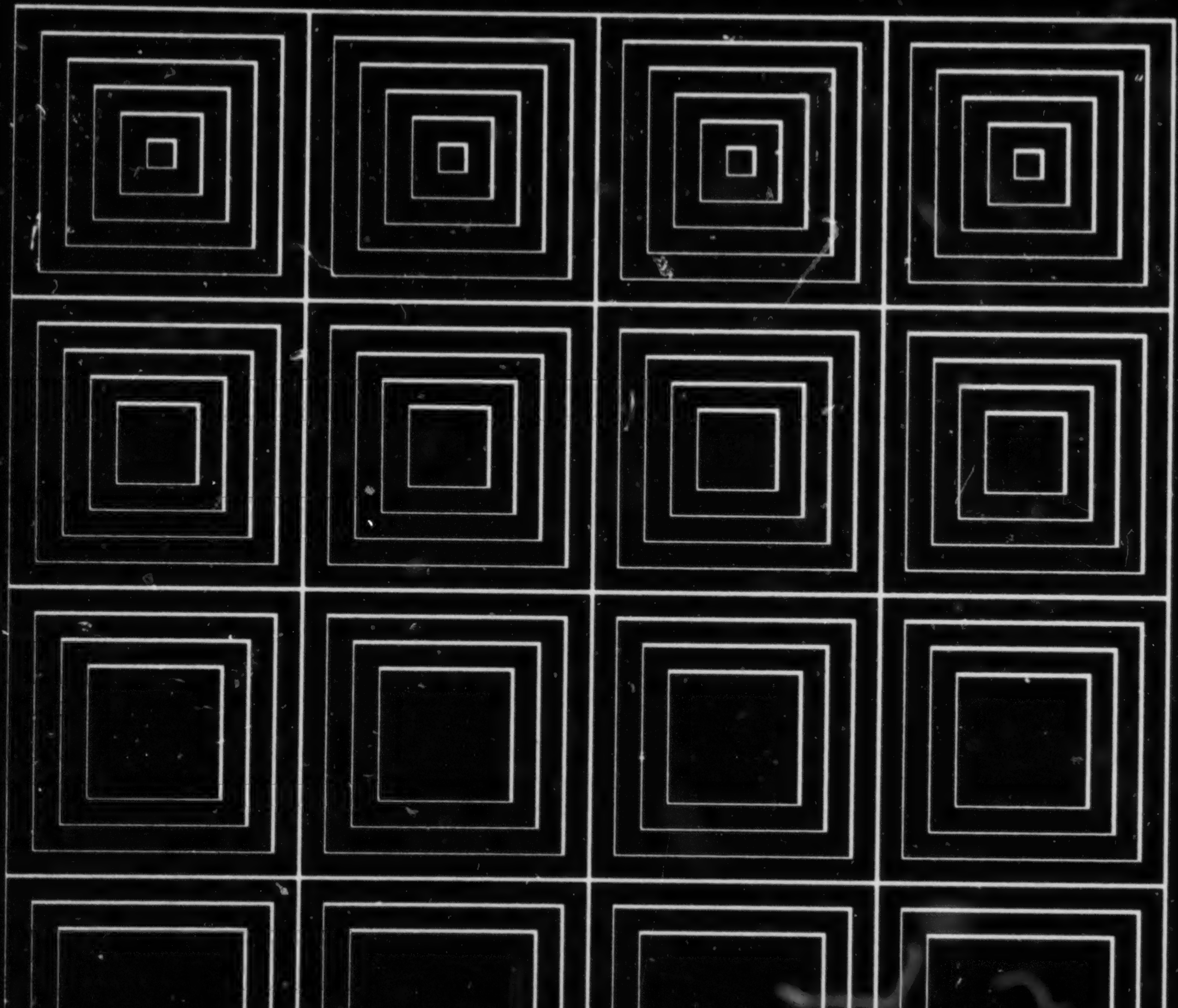
Report of the
Auditor General of Canada
to the House of Commons



Fiscal Year Ended 31 March 1985

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AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

To The Honourable the Speaker of the House of Commons:

I have the honour to transmit herewith my Report to the House of Commons for the fiscal year ended 31 March 1985, to be laid before the House in accordance with the provisions of section 7(3) of the Auditor General Act, S.C. 1976-77, c. 34.

Kenneth M. Dye, F.C.A.
Auditor General of Canada

OTTAWA, 24 October 1985

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REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF COMMONS

FOR THE FISCAL YEAR ENDED 31 MARCH 1985

INTRODUCTION

The principal functions and responsibilities of the Auditor General of Canada are set out in the Auditor General Act, S.C. 1976-77, c. 34, which came into force 1 August 1977. My responsibilities in respect to those Crown corporations for which I have been appointed auditor are set out in the Financial Administration Act, R.S.C. 1970, c. F-10 (amended). The Auditor General Act is included as Appendix A to this Report and the relevant sections of the Financial Administration Act as Appendix B.

In compliance with section 7 of the Auditor General Act, my Report for the fiscal year ended 31 March 1985 is presented herewith.

My examination included general reviews of the accounting procedures and such tests of accounting records and other supporting evidence as were considered necessary in the circumstances. My staff was provided with all the information and explanations required. At the time this Report went to press, we were awaiting the Federal Court judgement to complete our audit of the acquisition of Petrofina Canada Inc.

The financial statements of the Government of Canada for the fiscal year ended 31 March 1985, which have been prepared by the Receiver General for Canada in accordance with the provisions of section 55 of the Financial Administration Act and appear in Volume I of the Public Accounts of Canada, have been examined by me as required by section 6 of the Auditor General Act.

MATTERS OF SPECIAL IMPORTANCE AND INTEREST

MATTERS OF SPECIAL IMPORTANCE AND INTEREST

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1

MATTERS OF SPECIAL IMPORTANCE AND INTEREST

1.1 I am focusing on a single theme in this opening chapter of my annual Report. It is the issue of the appropriateness and quality of the information that Members of Parliament receive.

Information Needed to Fulfil Audit Responsibilities

1.2 In last year's Report, I outlined the sequence of events that led me, on 5 July 1984, to seek a judicial clarification of the access to information privileges accorded to my Office under the Auditor General Act.

1.3 At the time of writing this Report, the Federal Court decision had not been handed down.

1.4 I am able to say that I and my staff had access during the 1984-85 fiscal year to the information, documents and explanations that we required to fulfil our responsibilities to the House of Commons.

Information for Parliament

1.5 The issue of the quality of information that Members of Parliament receive is not a new one. It was in the minds of the Independent Review Committee that reported on the Office of the Auditor General of Canada 10 years ago. Upgrading the quality and relevance of information on financial and administrative performance available to MPs was also a topic of concern for the Lambert Royal Commission on Financial Management and Accountability which reported in 1979. It is a matter that successive annual Reports of this Office have addressed over the past years.

1.6 The issue does not go away. Both in formal sessions of the Public Accounts Committee and in my conversations with parliamentarians, MPs reiterate their need for digestible and timely information.

1.7 There is an urgency to their request. Every profession has its tools, and the primary tool of those who legislate is information. Without clear information, they cannot make decisions; without clear information, they cannot exercise the stewardship increasingly required of them by sceptical and pressing constituents; without clear information, they cannot tell whether the money they are asked to vote for the use of government and all its departments and agencies is really required or appropriate; without clear information, they cannot hold the government accountable for the expenditure of those funds. Without clear information, MPs can scarcely act at all.

1.8 To elect Members of Parliament and then fail to provide them with an adequate flow of information is like recruiting an orchestra, giving the members musical scores with sheets missing and garbling the orchestration.

1.9 There is, of course, an argument that the quality of information that Members of Parliament receive is immaterial, because – so the argument continues – MPs have virtually no input into the formation of policies, and their accountability role is limited to examining the stable doors long after the horses have departed.

1.10 I don't have much use for that argument. My five years in Ottawa, particularly in my work with the Public Accounts Committee, have demonstrated to me the vital role MPs can perform in our system of government. And, as Auditor General, I recognize that it is integral to my mandate both to provide and to verify information for Members of Parliament so that they will be enabled to fulfil their responsibilities even more effectively.

1.11 I am, of course, also aware that there is a move to restore to Parliament a greater role in making and shaping public policy. In the trenchant words of the Third Report of the Special Committee on Reform of the House of Commons tabled in June this year:

> Years ago, Parliament was the primary source of legislative issues. Today, the legislative role of Parliament and its members is not to formulate but, at best, to refine policy.... It is time to change this situation. Private members must once again become instruments through which citizens can contribute to shaping the laws under which they live. The formulation of legislation used to be a central task for Members of Parliament, and it must become so once again.

1.12 I don't know whether that proposal is a matter of controversy. But what is quite certain is that any attempt to restore to MPs a greater role in formulating policy will come to grief unless it is matched by an equal determination to ensure that MPs receive prompt and relevant information on government programs.

1.13 The proposals put forward by the Special Committee include changes in the standing committee system of the House. The Special Committee envisages a structure of standing committees paralleling government departments that will

> allow committee members to gain a great deal of knowledge about departments as they monitor their activities. Committees would use their new authority to study the relevant government department in sufficient depth that a committee would become familiar with and be able to analyse and comment effectively on the government's future policy and expenditure plans.

1.14 That kind of restructuring implies a regular flow of detailed information. And the Special Committee proceeds to define this requirement when it recommends that each standing committee have before it an array of information, including the department's objectives, the activities carried out in pursuing them, the department's immediate and long-term expenditure plans, and its achievements measured against its objectives.

1.15 However, whether or not the House of Commons restructures its committee system along such lines, MPs should be receiving precisely this kind and quality of information. A great deal of activity has taken place during the last 10 years to provide and ensure that flow of information. These initiatives include creating the Office of the Comptroller General, introducing the Part IIIs of the Estimates, reporting program evaluation findings and conclusions, and enacting the 1984 amendments to the Financial Administration Act that provide for an annual reporting to Parliament of the activities of Crown corporations.

1.16 I am also aware that the purpose of my own Reports is to provide significant information to Parliament and to provide assurance that other information MPs are receiving is accurate and complete. I am continually striving to make the contents of my Reports and the way the material is presented as useful as possible to Parliament.

1.17 As reported in Chapter 15 of this Report, my Office's Program Evaluation and Internal Audit group has recently completed an assessment of the effectiveness of our annual reporting process. As part of the study, Members of Parliament were interviewed to obtain their views on the quality and usefulness of the audit information provided to them and their suggestions on ways to make our auditing and reporting more useful. A summary of their responses is included in Chapter 15. That response is already proving useful to us as we attempt to improve our own reporting to Parliament. The MPs' views have also contributed to my own understanding of the kind of information they need and have assisted me in writing this chapter.

1.18 A second initiative in attempting to provide the most relevant and appropriate information for MPs is the inclusion in this annual Report of a follow-up and status report on selected recommendations made in our 1982 and 1983 annual Reports. I hope this survey of the status of action taken as a result of previous observations and recommendations will prove of practical value to the Public Accounts Committee and all MPs. If their reaction is positive, a follow-up chapter will become a standard feature in our future reports.

1.19 In this first chapter, then, I discuss various kinds of information MPs can reasonably expect to be receiving. I comment on some aspects of the adequacy of that information. And I make suggestions for improvements. Throughout my discussion, I use illustrations and examples from the chapters in this year's Report and from our ongoing work.

1.20 In a moment I will be commenting on the Office's Federal Government Reporting Study. The study grew from my perception that the information contained in the Government of Canada's summary-level financial statements can be made more useful and understandable to those who need and use information about the government's financial position and operations. As Parliament's auditor, the primary users I had in mind were

Members of Parliament themselves; in the course of this study we consulted a number of MPs.

1.21 It is clear that the qualities MPs want in the information provided in the financial statements are qualities they require in any and all the information they receive.

1.22 The MPs we consulted were unanimous in their desire for improved information that will allow them to be more effective in their twin roles of considering proposed legislation and of holding the government and its departments, agencies and corporations accountable for the expenditure of public money. Improved information is also vital to them in fulfilling their regional and constituency responsibilities.

1.23 Members of Parliament tell us they need clear, exact and reliable information. It must provide them with a broad perspective of policies and programs. In addition, while MPs recognize that they can never have the detailed knowledge of particular policies or the operations of specific programs that, say, a departmental specialist possesses, on occasion and for specific purposes they require direction and access to detailed information – the kind of information that allows the MP to cut through to the nucleus of the issue at hand. Whether the source of information is the financial statements, Part III of the Estimates, or the data now required to be provided to Parliament on the activities of Crown-owned corporations, MPs require information to be presented in a way that allows them to move from a summary level to a more detailed accounting of particular issues.

1.24 The solution to providing the best and most useful information is very certainly not simply providing more information. MPs already suffer from an overload of data. The answer must lie in providing MPs with the kind of summary information that permits them to grasp the key issues quickly and then leads them into the finer points and technicalities where necessary.

1.25 Also MPs are particularly concerned that information is consistent, permitting a year-by-year comparison and analysis of particular programs.

1.26 Again, information that is not linked to other information about the same program is of little use. Where, for example, a program is being implemented both by direct funds and by a selective tax incentive, Members tell us they are frustrated if there is no linkage between the information they receive on the direct expenditure and the tax expenditure.

1.27 In the long term, this fragmentation may well prove to be the most frustrating issue that MPs have to deal with in regard to the information available to them. It may also prove to be the problem most difficult to solve.

1.28 One effort to address some aspects of the problem is the Illustration of an Annual Financial Report of the Government of Canada, developed by my Office in connection with our Federal Government Reporting Study (FGRS). This document will be available in a separate Canadian report on FGRS available later this year.

1.29 The MPs to whom we showed an earlier version of the Illustration of an Annual Financial Report were most positive. Said one: "I can't help but feel that anything that is as succinct as this will become a basic working tool of Members ... it will be extremely useful." And another: "MPs will go back to the document time and time again as a source of reference. It is excellent."

1.30 Quite apart from its value as a basic financial document for MPs, in its attempt to bring together, simplify, consolidate and link financial information, it may perhaps become something of a model of how both financial information and related non-financial information can be summarized most usefully for MPs.

1.31 The particular elements of information I discuss in this chapter are:

- the Financial Statements of the Government of Canada;
- departmental accountability;
- the Estimates, with particular reference to the Part IIIs;
- information about mixed and joint enterprises, with a note on privatization; and
- tax expenditures.

The Financial Statements of the Government of Canada

1.32 While recognizing that Canada is one step ahead of nearly all the rest of the world in providing audited summary-level financial statements, I have, nonetheless, since becoming Auditor General, questioned the accounting policies that underlie those statements. I believe those policies have resulted in the presentation and reporting of information in the statements that could significantly mislead readers.

1.33 Besides expressing my concerns in the Opinion and Observations attached each year to the Public Accounts, I addressed the issue in some detail in my 1983 Report. I spoke of the gap that had developed between economic reality and the information presented in the financial statements. I stressed that critical choices are made based on economic interpretations of the information contained in the summary financial statements. I concluded that improving the relevance and usefulness of the information provided in the Financial Statements of the Government of Canada was a matter of urgency for Members of Parliament and all Canadians.

1.34 However, there has been scant knowledge available about who uses federal government financial reports and what financial information users need. Who are the users?

What are they doing, or trying to do, with the information? How could the information and the reports be made better to suit their needs?

1.35 The importance of these questions led me to initiate the Federal Government Reporting Study (FGRS). The time seemed right for it. The government was receptive to making changes, Canada's accounting profession was expressing an interest and, in particular, the Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants was setting out to determine objectives and generally accepted accounting principles for public sector financial statements for all levels of government. One thing was certain. These objectives and principles must be based on the needs of users of the information in the government financial reports.

1.36 Thus, to identify the users and develop a thorough understanding of their information needs seemed to me to be essential both to the government as preparer and to my Office as auditor. This knowledge would assist PSAAC in establishing accounting principles, assist the government in proposing improvements in its financial reports, and assist me in assessing the proposals and reporting to Parliament.

1.37 I was delighted when The Honorable Charles Bowsher, C.P.A., Comptroller General of the United States, expressed a strong interest in our Federal Government Reporting Study and in conducting a complementary research effort in the United States. Mr. Bowsher and I both believe that the use of financial information about national governments is of interest to domestic and international organizations around the world.

1.38 As mentioned earlier, I will be publishing a separate report arising from our Canadian work later this year. It will be titled The Federal Government Reporting Study. A joint report on the combined work of our Office and the General Accounting Office in the United States will be published early next year.

1.39 Our study responds to a recognition by the government that there is a need for improving the financial statements. It complements important work by the Office of the Comptroller General of Canada and the Canadian Institute of Chartered Accountants. In a wider perspective, Mr. Bowsher and I believe that the study will prove beneficial on the international scene where critical decisions are being made, based in part on the information available about many countries' revenues, expenditures and debt.

1.40 However, as Parliament's auditor, my chief concern has been to ensure that the study will prove immediately helpful to MPs. The Illustration of an Annual Financial Report to be included with the report is based on the Government of Canada's 1984-85 fiscal year. And although it is intended only as an example of the direction in which the government could move in preparing a summary display of the Accounts of Canada, I anticipate that MPs will find it particularly useful because the Illustration pulls together in a useful way a whole spectrum of financial data and related information now scattered through various government reports.

1.41 I would like to make a general observation about the Federal Government Reporting Study and the related activity by the Office of the Comptroller General of Canada and by the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants.

1.42 Accounting practices are in a state of change. . Accounting is like language. Changes in language do not come about through theoretical discussion; they occur because successive generations have new concepts to communicate. Language must have the flexibility to respond to those needs. The same is true of accounting. In our day, accounting is being severely tested as to its ability to communicate the financial information that users require.

1.43 Essentially, accounting measures past performance. But it has also proved an extremely useful tool in making decisions for the future, because the characteristics of the immediate future are generally not too different from the immediate past.

1.44 This may be changing. Commentators point out that a feature of the information age is an accelerating pace of change. Decisions based on immediate past experience cannot be guaranteed to work out in the future.

1.45 Accounting is attempting to face up to this challenge. The problem, as expressed recently by one writer, quoting a saying of the ancient Chinese philosopher Lao Tzu, is that reliance on financial statements as indicators of the future must always be a little like "trying to understand running water by catching it in a bucket".

1.46 Those of us who are seeking to improve the display of financial and accounting information for the public sector are trying to provide a measure of the water as it flows.

1.47 It is not an easy task. But it is one that must be completed if MPs are to have relevant and timely financial information.

1.48 I am sure that our Federal Government Reporting Study will provide a fresh perspective by making the expressed needs of users the key to our approach. The work of improving the financial statements goes on. I hope that, having read the Canadian study report together with the Illustration of an Annual Financial Report, Members of Parliament will respond by providing further input to the process.

1.49 The language of the financial statements must be shaped to meet the needs of the primary user of government financial information. Parliament is that primary user.

Departmental Accountability

1.50 My theme is the information that Parliament receives. And there is evidence that MPs are not always receiving clear information on who is making decisions within the departments of government and why those decisions are being made.

1.51 The issue can be pin-pointed by reference to the meetings of the Public Accounts Committee earlier this year where the Committee studied the findings of our 1984 comprehensive audit of the Department of Public Works. During the hearings, there had been a great deal of discussion about certain of the acquisition arrangements entered into by the Department. Following intense questioning by members of the PAC, an explanation for the acquisition of one of the buildings eventually emerged. The story is told in the Committee's own report to Parliament under the blunt heading "Misleading the Committee" (The Committee's Reports are reproduced in Appendix C):

> With respect to the Centennial Towers building in Ottawa, your Committee compared present and past testimony (the latter in connection with the Committee's Second Report of April, 1984). In earlier testimony, senior officers of the Department explained the acquisition of Centennial Towers in terms of an urgent need to house the Canadian Security and Intelligence Service. No mention was made of ministerial involvement. In present testimony, the decision to acquire Centennial Towers has been entirely attributed to ministerial direction. Your Committee considers that it has received misleading testimony.

1.52 In referring to this issue again, I wish to make it clear that I am not commenting directly on the findings and observations about the Department of Public Works that I reported last year. Those matters have been dealt with by the Public Accounts Committee.

1.53 However, the particular observation by the PAC raises the broader issue of departmental accountability about which I am concerned. In the formal sense, it does not matter whether ministers or departmental officials spearheaded the decision to acquire the building. For, under our system, ministers are ultimately accountable and responsible for everything that happens in their departments. But, I concur with the Lambert Commission which – six years ago – stated that the full application of that formal concept of ministerial accountability only serves to cloud the real accountability of those who are in charge of day-to-day operations.

1.54 And, interestingly, the PAC Report to the House of Commons, mentioned above, provides an illustration of ministers not being fully accountable for a departmental decision because they had not been provided full information. As stated by the Committee:

> In view of public servants' responsibility to fully inform their Ministers, your Committee was concerned by testimony which indicated that Ministers, individually and collectively, were not adequately informed by their officials prior to making decisions. For example, the Auditor General informed your Committee that officials of the Department did not tell Treasury Board

Ministers about a "package deal" involving the re-negotiation of leases for several Ottawa buildings owned by the Campeau Corporation. The Department negotiated these leases as a package deal but sought Treasury Board approval only on a building-by-building basis. When Treasury Board authority did not correspond with the Department's negotiating position, opportunities were lost and additional costs to the Crown of $42 million were incurred.

1.55 The issue is therefore two-edged, the sword of accountability cuts both ways. MPs may think that officials in a department have initiated and carried through a major decision when, in reality, the decision resulted from ministerial intervention. In another instance, MPs may believe that ministers are the architects of actions. But, in fact, departmental officials have not only taken the decision but have kept ministers at least partially in the dark as to the action they have assented to. All of this makes pinning down where accountability lies very difficult.

1.56 To return to the acquisition of Centennial Towers, the Public Accounts Committee wished to know who, in fact, was responsible for the decision. The earlier information the Committee received was that officials pressed the operational need for the building. But, according to the later information the PAC received, the particular building was acquired because of ministerial intervention.

1.57 Leaving totally aside whether, in retrospect, the particular acquisition appears to have been a wise investment of public funds, the transaction raises three important issues for parliamentarians and, indeed, for all Canadians.

1.58 The first is to reaffirm the clear principle that it is without question the right and privilege of ministers to employ ministerial direction to make such an acquisition. That concept lies at the heart of our parliamentary system. Departmental officials advise. Ministers decide. Underlying that principle is the recognition that a government has many "bottom lines" to meet. Although in a particular instance it must give due consideration to the value-for-money aspects of a certain project, it may well be that a broader social factor proves more important in the ultimate decision than strictly achieving the greatest degree of thrift. The social priority could be to increase employment in a specific geographical area or in a particular sector of the economy. Our political system has grown and developed to be responsive to the broader spectrum of our nation's and its people's needs. That's why we have elected politicians. Our destiny is not in the hands of unelected bureaucrats or auditors. Nor should it be.

1.59 However, accountability is another pillar of our system, and a second issue flows from the concept of an accountability process. For MPs to carry through the accountability element of their function, they almost certainly need to know who, in fact, made a specific operational decision, because the real purpose for making a decision is so often linked to the people who make it. The crux of the Centennial Towers acquisition as noted in the PAC Report was that MPs were misled about who was responsible for the decision. And until MPs know who made the decision and why, they cannot begin to examine such questions as whether due regard has been given to economy and efficiency in completing the transaction. Specifically, the Public Accounts Committee must be permitted to know who made a particular operational decision, to know who provided the advice on which the decision was made and the nature of that advice.

1.60 This same problem of not knowing who, in practical terms, provides advice and makes decisions cuts through to the essence of my own reporting to Parliament. The Auditor General Act requires me to report when public money has been expended without due regard to economy or efficiency. It also requires me to report instances where money has been expended for purposes other than those for which it was appropriated by Parliament. The Public Accounts Committee depends on this Office to supply that information. This can prove to be a very difficult task when the true rationale for making the decision has been obscured.

1.61 An instance of this kind of difficulty can be illustrated by reference to Chapter 13 in this Report on our comprehensive audit of Transport Canada's Air Transportation Administration.

1.62 During that audit, we examined the financial performance of the supposedly self-supporting airports in the Canadian system. These are the 23 international and national airports whose financial operations are carried out within the self-supporting Airports Revolving Fund. The departmental objective, clearly communicated to Parliament in the Estimates, is for the Department to develop and operate these airports in such a way as to recover all costs.

1.63 However, based on departmental cost-recovery policy, which includes cost of capital and certain indirect costs, the findings of our audit are that not only are the airports not self-supporting – 21 of the 23 were unable to recover their costs in 1984-85 and the overall deficit was estimated at $107 million – but a whole range of significant investments in airport facilities and expansion had been made without justification from the point of view of commercial viability and with next-to-no possibility of fully recovering costs.

1.64 In all common sense, I have to conclude that many of these investments were made for other than strictly transportation needs.

1.65 Again, in the case of the expansion of Hamilton Airport, approved by Treasury Board in 1982, when our auditors questioned what appeared to be outdated and uncertain forecasts that resulted in overly optimistic projections of increased air traffic and significant underestimates of projected losses, they were informed by departmental officials that a closer analysis had not been developed because Cabinet, in 1980, had already given prior approval in principle to the expansion.

1.66 If MPs are not informed of the real reasons for decisions being made, there is no way they can judge whether they provide value for money or achieved their objectives.

1.67 Now, let me re-emphasize that I am not questioning the policy decision to develop the Airport. What troubles me is that the House of Commons was at no time advised that these expenditures were entered into for reasons additional to satisfying the needs of an air transportation system or that these investments were made, at least in part, on the basis of broader economic or policy objectives.

1.68 The area where this state of affairs affects my own reporting is the credibility of the information I provide to Parliament. If the practice is at all widespread within departments of failing to document situations where ministerial involvement has dictated a particular transaction by departmental officials and, if again, the documented rationale provided to my auditors for that transaction differs from the actual rationale, then it is likely that the information I convey to Parliament concerning the transaction may be dangerously incomplete. It should, moreover, be borne in mind that the matters that I deem to be significant enough to bring to the attention of Parliament tend to be negative cases in which our audits are critical of departmental actions. The focus of that criticism, and subsequently the attention of the Public Accounts Committee, will tend therefore to be concentrated on the seemingly responsible non-elected officials. However, if the decision was in reality the product of an undocumented ministerial intervention, and made for reasons other than those contained in the documentation the PAC has access to, then the accountability process is compromised. Unfortunately also, both my auditors and the PAC may have spent valuable public money while failing to identify the real cause of a particular situation, because the information received was incomplete.

1.69 This is equally true where the obscurity as to who in fact made the decision lies in the opposite direction – where departmental officials have been the real decision makers. MPs should have a full opportunity to demand an accounting from those officials, including deputy ministers or other senior officials who have moved to other positions. The witnesses before the PAC should be the persons most knowledgeable about the issues being examined.

1.70 The Special Committee on Reform of the House of Commons addressed this other facet of the issue of where accountability lies:

> The idea of a minister being responsible for everything that goes on in a department may once have been realistic, but it has long since ceased to be so. A minister cannot possibly know everything that is going on in a department. The doctrine of ministerial accountability undermines the potential for genuine accountability on the part of the person that ought to be accountable - the senior officer of the department.
>
> We have heard many arguments that a new doctrine of deputy ministerial responsibility relating exclusively to matters of administration should be established. In this context administration includes policy implementation. Such a doctrine would set out the obligations of senior public servants and include the obligation to testify before parliamentary committees on matters of administration. Under this system, the testimony of deputy ministers before committees would be an everyday occurrence. Furthermore, regular open contact between the senior public service and Members of Parliament should lead to a more realistic understanding of administrative practices and more precise pinpointing of accountability.

1.71 This statement addresses the third important issue that emerges from such examples as the building acquisitions by Public Works and the expansion of Hamilton Airport by the Department of Transport. The issue is that this kind of decision making tends to negate many of the disciplines, controls and accountability procedures built into the expenditure process over the last 10 years. The purpose of those efforts has been to create a climate where departments and other agencies have become increasingly cost-conscious, one where they recognize an ongoing responsibility for the economical and efficient use of resources.

1.72 But unless there is a distinction between courses of action for which departmental officials are clearly accountable and those courses of action initiated by ministerial direction, the climate of accountability throughout the department also becomes obscured and diffused. The incentive to manage with economy and the cost-consciousness of staff at all levels are compromised.

1.73 Our audit of the Department of Regional Industrial Expansion (DRIE), reported in Chapter 12, provides a further insight into the problems that arise when there is a lack of clear criteria for specific projects and a lack of review procedures to ensure program authorities are respected.

1.74 Most of DRIE's programs are highly discretionary. The Minister has wide authority to approve or reject specific project proposals, and considerable approval authority has been delegated to departmental staff. The discretionary nature of DRIE's programs, together with its decentralized organization, places a requirement on corporate management to have in place effective procedures for guiding and reviewing program activities, and to have complete and accurate information on these activities. Yet it is in these critical areas that we found problems.

1.75 The lack of well defined program criteria and good quality information makes it difficult to ensure that there is accountability for achieving the prudent expenditure of funds.

1.76 Where so many programs are discretionary and where documentation is so incomplete, the complexity of determining accountability for specific programs becomes close to impossible.

1.77 In 1975, the Report of the Independent Review Committee of the Office of the Auditor General noted that accountability of the public service for administrative efficiency was unclear.

1.78 In 1979, the Royal Commission on Financial Management and Accountability stated that what was required, rather than the present state of confusion and diffusion of accountability, was a means of holding deputy ministers accountable. It stated that unless the responsibilities of deputies were defined, delegation of managerial authority could never adequately support the individual and collective responsibilities of ministers.

1.79 And in this year's Second Report of the PAC to the House of Commons, to which I have already referred, the Committee says that it has become increasingly evident that there is a need for stronger controls in the Treasury Board and in departments and agencies to ensure that compliance with government regulations, policies and directives is taking place.

1.80 If the responsibilities of deputy ministers are to be more precisely defined, the key requirement, it seems to me, is to spell out the deputy's obligation to ensure that all relevant financial considerations are taken into account and brought to the attention of ministers. These considerations include the need for economy and the avoidance of extravagance or waste. If a course of action is contemplated that raises an issue of prudent and economical management, it is the deputy's duty to draw this to the attention of the minister and offer appropriate advice. If this advice is overruled, the deputy has the further obligation to ensure that both the advice and the ministerial overruling of it are clearly documented. Where questioned by the Public Accounts Committee on such an issue, the deputy minister must point out that it was a decision by the minister.

1.81 Although this clarification of the deputy's responsibilities may not be a complete answer to all accountability problems, it is clear that had formal documentation on the Centennial Towers transaction been available to our auditors and to the Public Accounts Committee, a great deal of time and money would have been saved and conflicting testimony would have been avoided.

1.82 In the broader perspective, MPs would have far better information on who in government is making decisions on programs, acquisitions and transactions and why those decisions are being made.

1.83 I offer an analogy. When a ship goes aground on rocks or a sandbank, the first things the subsequent board of inquiry needs to know are who was in charge of the ship at the time and what was the purpose and direction of the voyage. Too often, when the Public Accounts Committee examines a departmental program, it is unclear who was in charge and making the decisions; it is also often unclear precisely why the program was being undertaken.

1.84 Without such information, Members of Parliament can scarcely begin their task of scrutinizing governmental policies and programs.

The Estimates

1.85 Of all the important changes made in recent years, one that has great potential for providing MPs with the reliable information they need in considering programs and holding the government accountable has been the revision of the form of the Estimates. The revision, which began in 1981 and is now fully in place, was a response to recommendations of this Office in annual Reports from 1975 to 1979, to recommendations made by the Lambert Commission, and to recommendations of the Public Accounts Committee. The objective of all these recommendations was to provide Members of Parliament with better information on government programs.

1.86 In my view, the Office of the Comptroller General has done thoughtful and valuable work for MPs in revising and implementing the new form of the Estimates.

1.87 The most significant aspect of the revision has been introducing detailed expenditure plans for each of the major programs in departments. These Part IIIs complement the total government expenditure plan (Part I) and the main departmental Estimates (Part II) by providing details of planned initiatives and actual results, related expenditures, other performance data useful in justifying resource requirements and sufficient background information to provide a basic understanding of each program. An especially important element for the MP, who is even more concerned about the future than the past, is that the Part IIIs are designed to present projections and forecasts in light of the actual program performance in previous years. These performance data have been potentially strengthened by a 1984 government commitment to include program evaluation information in the Part IIIs. This responds to a recommendation contained in our 1983 Report that the Office of the Comptroller General should ensure that the Part IIIs of the Estimates refer to and incorporate those findings of evaluation studies that are pertinent to program performance and resource management.

1.88 The enhanced Part IIIs have great potential to be useful to MPs. They have said that they need accurate, well presented information about the operations of government. They want objectives presented in such a way that results can be measured against them later. They want precise time frames for new initiatives. They want realism and accuracy when resource needs are being justified. They want performance information. Did previous programs in the same policy areas work out? Did they fulfil expectations? Did they serve the public? Did they provide value for money to the taxpayer? All this information should be found in the departmental Part IIIs of the revised Estimates.

1.89 The Part IIIs also have the potential of making a substantial impact on the work of this Office. Just as a financial audit can provide assurance on the information presented in financial statements, the comprehensive auditing practised by my Office can provide MPs with assurance on the performance information provided in the Part IIIs. When interviewed by our Program Evaluation and Internal Audit group, MPs recommended that the Auditor General should explore ways of providing support to the standing committees by relating audit findings to Estimates submissions and by helping the committees link the information contained in this Office's annual Reports, departmental annual reports and the Public Accounts.

1.90 The recommendation raises very important issues. To perform such a task annually throughout all departments would demand huge resources. Again, the concept of my Office routinely providing information to parliamentary committees other than the Public Accounts Committee is new. However, I recognize the potential in the suggestion. The government would be providing MPs with complete and reliable information in the Part IIIs, and the Office of the Auditor General could be assessing the adequacy of disclosure and the firmness of the data in the Part IIIs, especially as they relate to previous years' activities. I will be looking very carefully into the concept.

1.91 In fact, up to now in our cyclical comprehensive auditing, my Office has been holding off a little in reviewing the Part IIIs with that degree of strictness. This has been in recognition that departments are still gaining experience in presenting information in their Part IIIs.

1.92 We may have held off too long. There is evidence in our chapters this year that the information provided in the Part IIIs is falling short of what it might be.

1.93 Earlier this year, after the Public Accounts hearings on the comprehensive audit of the Department of National Defence (DND), reported in our 1984 Report, the PAC found it necessary to recommend to the House of Commons that the Department identify in Part III of the Estimates non-military objectives for each of its major capital projects. The Committee also wants DND's Part III to contain information on the extent to which non-military objectives have been achieved. The Committee seems to be indicating that the departmental Part III has fallen short in providing details of objectives.

1.94 Also by way of illustration, our audit of Public Pension Management (Chapter 4) finds that there has been an actual deterioration in the kind of financial information provided in the Department of National Health and Welfare's Part IIIs since their introduction in the 1982-83 fiscal year.

1.95 Our audit of Public Pension Management also points to two gaps in all departmental Part IIIs that detract from their usefulness to MPs. First, inflation rates and program take-up rates – which form key assumptions in forecasting future public pension costs – are not disclosed in the Part IIIs. Second, information on tax expenditures – which form a crucial element in pension benefits – is also excluded. The irony is that up to two years ago this information was included.

1.96 A major theme of our study of Mixed and Joint Enterprises (Chapter 5) is the quality of information available to Parliament, and I discuss several aspects of that study a little further on in this chapter. However, in the context of my concerns about the Estimates, it is noteworthy that the types of supporting information, such as program descriptions and the objectives of capital projects, provided in the Estimates in regard to Crown corporations is absent when it comes to mixed and joint enterprise corporations. Although there are undoubtedly decisions to be made about the appropriateness of disclosing certain information in the Estimates about enterprises in which other shareholders are involved, MPs must have sufficient information to decide on the appropriateness of the expenditure of public funds and to hold the government accountable for that expenditure.

1.97 Chapter 6 on the Public Service Commission contains a reference to the Estimates where the objectives for a key activity are not adequately described.

1.98 Our audit of the Department of Regional Industrial Expansion (DRIE) refers to problems of accountability in relation to the Canadian Industrial Renewal Board (CIRB). Among our other findings is the fact that the Department's Main Estimates did not explicitly refer to the Board until 1985-86. However, it is encouraging to see that CIRB is acknowledged in a number of places in the 1985-86 departmental Part III.

1.99 I am also pleased that our audit teams in their ongoing work are discerning a number of genuine attempts to comply with Treasury Board requirements. And while there are still shortcomings and a lack of completeness, these must be seen in the context of very large and complex programs.

1.100 This leads me to say that I know that the preparation of a good Part III is difficult. The Office of the Comptroller General has done first-class work over the last six years in defining the information to be included and the form of the Part IIIs. The task has not been easy. The problem is comparable to that of providing summary financial information for the public sector, the issue that has proved so challenging to our Federal Government Reporting Study team and to others. With the Part IIIs of the Estimates, there are even fewer precedents, and certainly the work of discovering the best way to display the non-financial information related to expenditure projections that the Part IIIs require is at least as daunting a task as preparing improved summary financial statements.

1.101 But for all the difficulty of their creation, the Part IIIs potentially represent the MPs' best instrument for grasping the nature and size of particular programs and for assessing their impact and effectiveness.

1.102 In citing the illustrations that I have from our chapters, I should make it clear that we have not engaged in any kind of in-depth review or government-wide study of Part IIIs. It may be that the shortcomings I have noted are isolated examples. I am also aware that the Office of the Comptroller General is monitoring implementation of the Part IIIs and I want it to be clear that I am not second-guessing that work. However, I remain troubled by the examples reported in this year's chapters.

1.103 I suggest that there may be a number of elements contributing to the inadequacies. In all fairness, producing the Part IIIs is still a new thing; discussion continues over the level and detail of information required. However, I have the impression that MPs seldom explore the Part IIIs in depth and in detail. Indeed, our auditors have indicated that certain departmental officials have told them they do not bother to develop complete figures and projections for the Part IIIs because no one pays much attention to them. This may encourage those preparing the Part IIIs to regard them more as advocacy documents than accountability documents. And the impression that no one is giving detailed attention to the Part IIIs may result in their not being developed at as senior a level within the departments as they might be.

1.104 Whatever the cause, any falling off in the reliability, accuracy and consistency of the Part IIIs not only blunts what is potentially one of the most effective informational tools that MPs have at hand, but also negates many years of work – and much expense – in attempting to provide Parliament with a clear and detailed understanding of contemplated programs together with information on how programs have performed, measured against the projections set out in previous Part IIIs.

1.105 It seems to me that two things are necessary to ensure that the revised Estimates, specifically the Part IIIs, fulfil their potential and justify the extensive work that has gone into developing them.

1.106 First, I am sending out the message that this Office will be regarding each Part III as an essential accountability document. In our cyclical comprehensive audits, we will continue to compare the actual programs and activities of departments with the descriptions provided in their Part IIIs. In addition, as I say, we will be looking very carefully at the ramifications of auditing specifically the performance data, including program evaluation findings and conclusions. I recognize that our work in this area has the potential of providing MPs with assurance that the data are reliable and with assurance that value for money has been achieved in programs.

1.107 The second – and even more vital – factor in assuring that the Part IIIs are made to be as good as they can be is for MPs to indicate to departments that they regard the Part IIIs as an absolutely essential information tool in their work and intend to give them their highest priority and attention.

1.108 Certainly, if the House of Commons moves at all to restructuring its standing committees, as proposed by the Special Committee on Reform of the House, the information contained in the Part IIIs will be vital. If the information is not timely, accurate and complete, the work of the proposed standing committees will be compromised. It would be like constructing a splendid new library and leaving the shelves bare.

Mixed and Joint Enterprises and a Note about Privatization

1.109 A clear message that comes through from our Federal Government Reporting Study is that MPs want to have full information on the activities of Crown-owned corporations. This is especially true where the corporation is less a commercial enterprise and more a direct instrument of government policy. But regardless of the nature of the corporation, to the extent that public money is involved, Parliament has its part to play in the accountability process.

1.110 This principle was the basis of this Office's concerns, expressed in successive annual Reports – most forcefully in 1982 – that a regime should be put in place to ensure that Crown-owned corporations are accountable to Parliament.

1.111 The 1984 amendments to the Financial Administration Act (FAA) in relation to Crown-owned corporations were a giant step toward involving Parliament more clearly and more closely in the creation, financing and accountability of Crown corporations. The amendments provide that MPs are to be fully informed on the objectives of each Crown corporation and will have a systematic flow of timely and relevant information to allow them to judge whether a corporation has met its stated objectives.

1.112 However, enterprises in which the federal government shares ownership with other participants do not come under the scope of the 1984 amendments to the FAA.

1.113 This Office's 1982 Report recommended that Parliament should give attention to these mixed and joint enterprises and, in Chapter 1 of last year's Report, I observed that, because the amendments did not address – and were not intended to address – control and accountability issues in these enterprises, we had initiated a study of their accountability to Parliament and government. Our findings are in Chapter 5 of this Report.

1.114 Of particular interest in the context of any discussion of the information needs of MPs is the chapter's focus on the extent and quality of information available to Parliament on the existence, nature and significance of the mixed and joint enterprises of which the federal government is a part owner.

1.115 I am disturbed by our overall assessment "that financial and other information available to Parliament is fragmented and incomplete". And, although the extent of dollars involved is not nearly as large as is the case of the Crown corporations, I hope that the Public Accounts Committee will examine the whole issue of an appropriate accountability regime for mixed and joint enterprises.

1.116 This need to improve the nature and extent of information available to Parliament about those corporations in which the government has less than 100 per cent direct equity ownership takes on a new urgency in light of the Governments' stated intention to rationalize its corporate holdings by moving Crown corporations that no longer serve a public policy objective into the private sector.

1.117 Privatization, in some instances, may well mean that only a portion of the government's ownership in a Crown corporation is sold. Nonetheless, that will mean that the corporation would no longer be a Crown corporation governed by the control and accountability regime of the amended Financial Administration Act. Instead it would become a mixed or joint enterprise, where – as Chapter 5 makes clear – the information available to Parliament about the corporation may well be insufficient and unsatisfactory.

1.118 This potential move of entities, in which large sums of public money are invested, from a strong accountability framework into – or through – a less certain accountability status is a matter for uneasiness.

1.119 This Office provided significant input in regard to the audit provisions contained in the 1984 amendments to the FAA. It will be of great concern to me – and I am sure to MPs also – if major Crown corporations slip out from under the accountability safeguards of that legislation while substantial public funds are still invested in them.

Complete privatization of course eliminates this problem. It is partial privatization that raises the accountability issue.

1.120 As other countries have discovered, both the acquisition and disposition of ownership by government are not easy. I have made it abundantly clear in the matter of the purchase of Petrofina Canada Inc. by Petro-Canada that when public money is used to acquire assets and equity, there is a need for Parliament to be assured that value for money is received.

1.121 Equally, when public assets and shares – worth hundreds of millions, possibly even billions of dollars – are to be disposed of, Parliament must be adequately informed both of the government's intentions regarding the purposes of the specific disposition and of the results achieved. MPs are entitled to precise qualitative and quantitative information about the purposes intended to be achieved by each disposition and of the results in fact achieved. As well, they are entitled to know the amount and form of the proceeds accruing or reverting to the public purse.

1.122 In view of what I report in the next section about tax expenditures, particular care has to be taken to examine any special tax remissions or arrangements that are built into the disposition of these government assets.

1.123 There is a related item of significance in the matter of information to Parliament. Volume III of the Public Accounts is to be replaced by the "Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada".

1.124 This not only avoids the duplication involved in retaining Volume III of the Public Accounts but I note with pleasure that the government will be referring the new reports on Crown corporations to the Public Accounts Committee. This means that important information on Crown corporations will be referred to the PAC, and its essential role of overseeing all the dimensions of public expenditure will remain intact.

Tax Expenditures: Revenues Foregone

1.125 In last year's Report, I expressed my concern that Members of Parliament were receiving less than adequate information on the use of tax expenditures. To illustrate the problems that can arise when a government chooses to pursue its policies by providing tax reductions to certain groups or individuals, I called attention to the scientific research tax credit program.

1.126 In May and June of this year, the Public Accounts Committee examined that program in detail, hearing the testimony of officials from the Departments of Finance and National Revenue-Taxation. One thing that the hearings made clear was the immense difficulty of plumbing the complexities and ramifications of the program and of its enormous costs in foregone revenues.

1.127 In surveying users' requirements in connection with the Federal Government Reporting Study, we asked individual MPs about their needs for information on tax expenditures. Their response was that it is impossible for MPs to evaluate the thrust of the government's social and economic policies unless they have such information. The suggestion was made that some method should be found to display together the direct expenditures and the tax expenditures that relate to specific policy areas and programs.

1.128 In presenting the budget in May, the Minister of Finance indicated that the Ministerial Task Force on Program Review was looking closely at the cost of tax incentives to determine, among other things, whether particular incentives are worth the revenue loss that must be made up by other taxpayers. And, in view of MPs' expressed need for more information, I welcome the Minister's intention to release a detailed accounting of the cost of targeted tax measures.

1.129 Meanwhile, my concern that MPs are not receiving adequate information on the often very complex issues surrounding the government's foregoing of tax revenues is underlined by two matters that are discussed in detail in Chapter 3 of this Report, Audit Notes.

1.130 The first involves a remission order by the Department of Finance to Dome Petroleum and its affiliates in connection with Dome's financing costs arising from its acquisition of Hudson's Bay Oil and Gas Company Limited.

1.131 Now I must make it clear – as I did in a different context earlier in this chapter – that I am not at all questioning the policy or statutory right of the Department of Finance to provide such a remission order. Section 17 of the Financial Administration Act allows for such orders. But I am in some doubt that when Parliament enacted the legislation MPs had in mind such a huge remission order as is potentially involved in the Dome situation.

1.132 That tax remission was granted on 5 February 1985. And the foregone tax revenue could eventually add up to one billion dollars.

1.133 Without questioning its legality, what disturbs me a great deal is that by using section 17 of the FAA, the Department of Finance submitted a recommendation to Treasury Board for the remission of a potential one billion dollars with almost no opportunity for the House of Commons to be informed or to be able to discuss the matter beforehand. The extent of MPs' prior knowledge was a governmental press release announcing the intention to issue the remission order.

1.134 There is something very wrong with a system that allows a one billion dollar policy decision to be made by way of a tax expenditure with Parliament having so little information on the transaction. We are, after all, talking about public money, provided by Canadian taxpayers who elect MPs to look after their interests.

1.135 But the thing does not end there. The complexities and uncertainties surrounding Dome's future viability apparently persuaded the Department of Finance not to estimate the cost to the Government of Canada in providing the tax remission. This means that, although under section 17(8) of the FAA the fact of the tax remission to Dome will be reported in the Public Accounts as supplementary information, there will be no indication of its cost implications. The remission for fiscal year 1985-86 has yet to be calculated. It is not clear whether, in the future, Revenue Canada-Taxation will indicate costs related to the tax remission in the current year. All of which leaves MPs with the scantiest of information.

1.136 And since the Financial Statements of the Government of Canada reflect only net revenue collected – excluding any reference to tax expenditures – there will be no indication in the statements of what amounts to a fiscal transaction potentially involving one billion dollars.

1.137 MPs' right and duty in regard to the government's spending of public money are twofold. First, there is the responsibility to examine and debate expenditures before they take place. In this instance, that did not happen. MPs had only the most cursory knowledge that the remission order was contemplated. Second, Members have the responsibility to ensure that, following any fiscal transaction, the government provides an accounting. Again, in this instance, no full accounting will take place.

1.138 Chapter 3 of this Report provides another illustration of my ongoing concern with the issue of tax expenditures and specifically with my emphasis that MPs are receiving insufficient information. It involves one aspect of Petro-Canada's 1981 acquisition of Petrofina.

1.139 The tax implications of the acquisition raise extremely serious questions that are fully described in the audit note in Chapter 3. But what concerns me here – in my discussion of inadequate information flowing to MPs – is that, in 1984, Parliament enacted amendments to the Income Tax Act that may well allow Petro-Canada – in connection with its 1981 acquisition of Petrofina – to reap benefits of hundreds of millions of dollars in reduced taxes. But MPs were not informed – and had no way of knowing – that these huge tax benefits might accrue to Petro-Canada when they enacted that legislation.

1.140 The concealed nature of selective tax provisions means that too often they escape the scrutiny of MPs. It can be seen that I was not exaggerating when I said last year that tax expenditures represent a huge hidden budget in the financial affairs of Canada.

1.141 A cost-conscious Parliament is in the position of a team of engineers trying to design a more fuel-efficient automobile. They think they have succeeded, but the engine seems to go on consuming as much gas as it did before. They cannot understand the problem until they notice that, hidden from view, myriad small holes have been punched through the bottom of the gas tank. This is too often the way of tax expenditures. Revenue leaks away, and MPs do not know about it until it is too late.

1.142 And while I welcome the Minister of Finance's commitment to release a detailed accounting of the cost of targeted tax measures, I suggest that, because of their indirect nature, neither the income tax advantages potentially obtainable through the remission order to Dome nor the tax benefits that may accrue in the Petro-Canada acquisition of Petrofina would show up in any such accounting.

1.143 I reported last year that I had established an audit project to examine the complex accountability and compliance issues that grow out of the use of tax expenditures. The two audit notes in Chapter 3 that I have made reference to flow from this ongoing work. Next year, I will be reporting more fully on the matter of tax expenditures.

Information and the Government of Canada

1.144 In beginning this chapter about the flow of information to Parliament, I remarked that it was not a new issue. What is new is that the importance of clear information must now be looked at in the context of the information era.

1.145 We have been steadily moving from an industrial age into the information age. Nowhere is this more obvious than in the public sector. Governments are in the information business. It is no coincidence that the increasing role of the public sector in the economies of many post-industrialized countries goes hand in hand with information becoming an ever larger resource in those societies. Nor is it coincidence that public controversy continues to surround information issues: access to information; concerns about the privacy of information held by governments; the leaking of documents containing confidential information about public policy. Other information issues of concern are the effects of high technology on employment and the effects of global telecommunications systems on cultural sovereignty. All these are symptoms of an era in which information is a dominant force in the economy.

1.146 It is therefore increasingly important to view information as a costly and valuable resource - a resource comparable in strategic importance to human resources, financial resources and physical assets.

1.147 The move into the information era and the consequent need to manage information as a resource are, in large measure, the product of the rapid advance of computer and communication technologies and their application in all phases of our society. For example, desktop microcomputers are now commonplace in the federal government. The initial excitement about their arrival is already a thing of the past. The focus now must be on the economical, efficient and effective use of these tools and the prudent management of the information they create.

1.148 To effect this stewardship where more and more information is handled electronically, those responsible for preparing reports and those who receive and review them must all be competent to handle and manage these new forms of information. The Public Archives estimates that the number of records held by the government in electronic form is about 10 times the number held in conventional paper form.

1.149 As an example, our audit of the Atmospheric Environment Service (AES), reported in Chapter 9, demonstrates that the crucial aspect of weather forecasting is the dissemination of information, and in gathering weather information and communicating it to the public, AES relies extensively on computerized processes.

1.150 My own Office, at an ever accelerating pace, is devoting a greater proportion of its resources to the application of computer and communications technology in a whole variety of areas – from computer assisted auditing and the auditing of computerized systems to word processing and graphics production and, for example, EDP assisted editing and electronic design and typesetting of this Report. And we are discovering that the initial resources directed to these areas receive an almost immediate pay-back in time saved and people employed more productively.

1.151 These kinds of economies can be realized throughout government by such means as integrating and consolidating information systems, reducing costs associated with storing and manipulating data through faster and more flexible retrievals of data, and by avoiding unnecessary duplication.

1.152 It would be a simple matter to go through the chapters of this Report and again and again find examples of the importance of the strategic role played by information and the resulting need to recognize information as a resource.

1.153 Our audit of Public Pension Management (Chapter 4) points out that the Old Age Security and Canada Pension Plan benefit delivery systems, which are among the largest record-keeping systems in the federal government, are operated on old EDP systems, using the technology of the 1960s. Departmental management considers the operational processes and systems to be costly, inefficient, limited, outdated and, in some instances, fragile and prone to error. And almost incredibly, such things as benefit calculations are still in some instances being performed manually. In fairness, it should be added that, despite the antiquity of some of these procedures, a high level of service to the public is maintained.

1.154 In the same chapter, we point out that this Office and internal auditors have made numerous observations over the last six years about the potential for fraudulent and unauthorized benefit payments in the pension programs. The potential exists because of EDP and operational weaknesses. We have pointed out, however, that more active investigations by the Department of such payments, including the use of computer assisted audit techniques, would significantly reduce the potential for their being undetected.

1.155 On a positive note, the chapter relating to our audit at Customs Canada (Chapter 7) gives high marks throughout to Customs for its success in communicating information swiftly to its clients and the public at large.

1.156 The federal government and its departments and agencies are part of the information age where value-for-money attitudes to information in its many forms and a resource management approach to information provide the means to achieve economic and efficient programs, improved delivery of services, and greater productivity.

Cash Management and Year-end Spending

1.157 Our review last year of cash management in the federal government had a lot to say about issues closely related to information management issues. Examples were failures to process deposits and payments as swiftly as today's electronic means permit and a fragmentation of responsibilities among a number of organizations and departments. The Public Accounts Committee subsequently focused a great deal of attention on the findings from the study.

1.158 Progress has been made since last year. The Office of the Comptroller General has been given responsibility for those areas of cash management that are included in Treasury Board's mandate. This excludes debt management which remains the responsibility of the Department of Finance. An Interdepartmental Cash Management Review Committee has been established to ensure good cash management co-ordination. The Committee commissioned a study to clarify further, if necessary, roles, responsibilities and relationships of all organizations that have a direct interest in cash management.

1.159 Negotiations with the financial institutions for revising the government's banking arrangements have resumed since my last Report and progress has been made toward arriving at a settlement. But no final agreement has been reached. I believe it is most important that an agreement be reached soon; my Office will continue to monitor developments.

1.160 Several Treasury Board Circulars have been issued on cash management during the past year, including topics like an overall government strategy for cash management, the collection of overdue accounts, debt write-off regulations and the release of pay cheques. The Receiver General is making improvements to speed up the transfer of payments and deposits through the use of advanced banking technology.

1.161 In July 1985, Treasury Board approved a submission on the issue of payment to suppliers when due, and a policy circular is to be issued.

1.162 In my 1984 Report, I noted that our review of year-end spending, done as part of the Cash Management Review, had uncovered some purchases and payments in advance of need. These samples were inconclusive on whether such practices were widespread. But, to determine conclusively whether there is widespread and significant waste resulting from accelerated spending at year-end, I decided that a government-wide study was required.

1.163 This study is now under way. We are reviewing the expenditures made at the end of the 1984-85 fiscal year. Since final year-end spending information was not available until late August, we could not complete the study in time for this year's Report. However, the work will be finished late this year and I will, in an appropriate manner, bring our observations, comments and recommendations to the attention of the House.

1.164 To end where I began this chapter, one vital and fundamental dimension in the flow of information is the information Parliament receives as it goes about its work on behalf of all Canadians.

1.165 I hope that my words here will contribute to the improved flow of clear, relevant and timely information to every Member of Parliament.

GENERAL SUMMARY - 1985 ANNUAL REPORT

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Introduction

2.1 This chapter contains a synopsis of each audit chapter in the 1985 annual Report of the Auditor General to the House of Commons. The synopses are set out in the order in which the audit chapters appear in the Report. Chapter 1, Matters of Special Importance and Interest, Chapter 3, Audit Notes, and Chapter 14, Follow-up and Status Report are not summarized in this chapter.

Chapter 4 - Public Pension Management
Chapter 5 - Mixed and Joint Enterprises
Chapter 6 - Public Service Commission
Chapter 7 - Customs Canada
Chapter 8 - Atomic Energy Control Board
Chapter 9 - Department of the Environment - Atmospheric Environment Service
Chapter 10 - Law Reform Commission
Chapter 11 - Canadian Human Rights Commission
Chapter 12 - Department of Regional Industrial Expansion
Chapter 13 - Department of Transport - Canadian Air Transportation Administration

A detailed table of contents as well as audit findings, observations and recommendations are set out in the individual chapters.

CHAPTER 4 - PUBLIC PENSION MANAGEMENT

2.2 **The elderly in Canada are dependent on public pension benefits for nearly 50 per cent of their income.** The two largest public pension programs, the Old Age Security Program and the Canada Pension Plan, are administered by the federal government. 2.5 million Canadians receive Old Age Security benefits, and 1.3 million of these people and 400,000 other individuals also receive benefits from the Canada Pension Plan.

2.3 **Scope of the audit.** Our overall objectives were to assess the adequacy and accuracy of financial and other information provided to Parliament about these two programs, and to evaluate the adequacy of systems and procedures in place for managing them.

2.4 **The costs of supporting public pension programs are enormous.** Total annual benefit payments for the Old Age Security and Canada Pension Plan programs amounted to $9 billion in 1980-81 and $16 billion in 1984-85. Assuming no further changes in level of benefits to the end of the decade, they will be over $23 billion in 1989-90. These costs will continue to increase significantly as the projected ratio of Canadians aged 65 and over to those under 65 rises from 1 in 10 to 1 in 5 in less than 50 years.

2.5 **We are concerned that Members of Parliament do not have adequate information to assess and understand fully both long and short-term financial implications of public pension programs.** Given the magnitude of the costs, an increasing elderly population, and the complexity of other factors affecting these programs, it is reasonable to assume that there should be quantification and a periodic review of long-term financial implications. However, except for the Canada Pension Plan, long-term costs are not estimated regularly. Moreover, despite previous recommendations by parliamentary committees, there is no mechanism in place to ensure regular reviews of long-term financial implications and commitments for public pension programs.

2.6 We are also concerned that the quality of information provided to Parliament through the Estimates and annual reports has deteriorated, with the result that there is, in our opinion, insufficient information for Members of Parliament to assess the financial performance of the programs.

2.7 The process for forecasting and determining pension costs is complex. Three departments, National Health and Welfare, Finance and Insurance, are involved in the process as well as three different professional disciplines – economists, accountants and actuaries. Users consider these forecasting processes to be good.

2.8 However, there is room for improved co-ordination and communication among the parties concerned to ensure that management and Members of Parliament are provided with consistent and timely information. An example of our concern is illustrated by the significant differences in estimates of the cost of proposed program changes between the Parliamentary Task Force on Pension Reform and the Departments of National Health and Welfare and Insurance (see paragraph 4.64).

2.9 **The Old Age Security and Canada Pension Plan programs are large and complex to administer.** They involve extensive policy negotiations and consultations within the federal government and with the provinces and numerous special interest groups. They also involve running one of the largest and most important service operations in the federal government, maintaining a very large computerized record-keeping system, and ensuring that over four million cheques are delivered on time every month to over three million individuals. The Department of National Health and Welfare has the main responsibility for administering these programs.

2.10 **Great emphasis is placed on maintaining a high level of service to the public, and particularly on ensuring that benefit payments are made on time.**

2.11 **The operational systems and processes that support the benefit delivery system work, but they are considered to be costly, inefficient, limited, outdated and, in some instances, fragile.** EDP systems are old, using the technology of the 1960s, and they have been extensively modified. There are numerous inefficient manual processes, including application processing, benefit calculations and record keeping.

2.12 Management's concern about the situation is reflected in the numerous studies and reviews that have been undertaken over the past several years. In addition, a major long-term initiative is currently under way to streamline and upgrade the systems. We strongly support these initiatives.

2.13 However, we are concerned about the length of time taken to implement improvements. The need for major system overhauls was first identified in the mid-1970s. Present initiatives, if completed on schedule, will not be complete until the 1990s. Delays in achieving systems upgrades have been due in part to the Department's caution about undertaking too many initiatives at the same time that might disrupt service to its clients. It is also due to successive governments cancelling and rescheduling government decentralization initiatives.

2.14 **For the past eight years, we have commented to the Department in our annual Reports on areas where specific improvements to existing systems and processes can be made. Although serious consideration has been given to our observations, little has resulted to date in terms of concrete improvements in these areas.** They include:

- addressing productivity improvements through the introduction of better performance measurement systems;
- intensifying efforts to detect, correct and prevent benefit overpayments; and
- improving co-ordination and communication among departments involved in the administration of the programs.

2.15 **In our opinion, the length of time to address our observations has been unreasonable.**

2.16 Finally, the Department of National Health and Welfare does not have the proper mechanisms in place to identify, monitor, control and report administrative costs incurred by it and other departments in running the Old Age Security and Canada Pension Plan programs.

CHAPTER 5 - MIXED AND JOINT ENTERPRISES

Purpose and Scope

2.17 Mixed and joint enterprises are corporations with share capital in which the federal government has a direct equity position together with private sector participants or with other governments in order to further common objectives. The federal government's equity represents an investment of public money on behalf of taxpayers - and it is Parliament that authorizes that investment. As an investor of the public's money and a shareholder in mixed and joint enterprises, the government is accountable to Parliament for equity investments that total over half a billion dollars at cost and the achievement of related public policy objectives.

2.18 If Parliament is to exercise fully its roles of scrutinizing and authorizing the commitment and expenditure of public funds in relation to mixed and joint enterprises, and holding the government to account for the achievement of associated public policy objectives, it must be provided with appropriate information. In particular, Parliament needs to be informed of the purpose, nature and extent of the government's investments and of the ongoing operations, financial position and results of such corporations.

2.19 Accordingly, our study focused on the adequacy of information available to Parliament with respect to the 13 mixed and joint enterprises of which the government is currently a part owner. Our purpose was to:

- identify and describe the nature and extent of the federal government's involvement in mixed and joint enterprises;
- review and assess the information that is currently available to Parliament with respect to such corporations; and
- review the means by which Parliament receives the information.

Profile and Characteristics

2.20 The study identified a total of 13 mixed and joint enterprises. The proportion of federal ownership in these corporations ranged from a low of 18 per cent to a high of over 60 per cent in 1984. At cost, Canada's equity was over half a billion dollars. In 4 of the 13 corporations, ownership is shared with other governments; these are referred to as "joint" enterprises. The remaining nine corporations are "mixed" enterprises, in which the other owners include private sector interests.

2.21 The corporations operate in a variety of sectors, including mining, shipping, telecommunications, energy, fisheries, and regional and community development. They include holding companies as well as operating companies. One corporation is currently inactive.

2.22 In 1984, the active mixed and joint enterprises had total assets and liabilities of $8.7 billion and $7.1 billion respectively. By way of comparison, the assets and liabilities of Crown corporations scheduled under the Financial Administration Act amounted to $49 billion and $37.6 billion respectively for their financial years ending on or before 31 July 1984. The total assets and liabilities of the mixed and joint enterprises in 1984 were dominated by the consolidated assets ($7.6 billion) and liabilities ($6.5 billion) of the Canada Development Corporation.

Information Available to Parliament

2.23 A number of sources of information on mixed and joint enterprises are available, or potentially available, to Parliament. The main ones are:

- the annual consolidated report of the President of the Treasury Board, which is required to be tabled in Parliament pursuant to section 153 of the Financial Administration Act;
- other reports, including the annual reports of the corporation and/or the departments in the portfolios of the responsible ministers;
- the Main and Supplementary Estimates, which provide Parliament with the opportunity to scrutinize the expenditure proposals of the government;
- the Public Accounts, which summarize the financial operations of the government during the preceding year – including the operations of Crown corporations and certain other bodies whose accounts are maintained separately from the accounts of Canada; and
- enabling instruments, including incorporating documents, shareholders' agreements and legislation providing authority for the incorporation or acquisition of corporations.

2.24 We reviewed the extent and quality of information available to Parliament from these sources in light of the present materiality of mixed and joint enterprises and the potential impact of current and future privatization initiatives. Our review shows that financial and other information available to Parliament is fragmented and incomplete.

2.25 The amount of information Parliament receives with respect to mixed and joint enterprises is not consistent across the corporations. For example, only one corporation's annual report (Telesat Canada's) is tabled in Parliament, and the information provided in the Public Accounts varies among the corporations.

2.26 The existing sources provide Members of Parliament with little or no information about such matters as the federal government's objectives in making or maintaining the investments or the extent to which the government's objectives are being achieved. Similarly, there is no information on the proportion of federal ownership in specific corporations, on who the other owners are, or on the subsidiaries or associates of mixed and joint enterprises

2.27 There is no regular flow of information to Parliament through the Public Accounts or other reports concerning the financial position or results of operations of each mixed and joint enterprise. As a result, Parliament is not regularly informed of the magnitude of individual corporations or of potential situations where erosion of the financial positions of corporations could put the government's investment in jeopardy or place demands on the public purse beyond the government's initial investment.

2.28 We concluded that there is both a need and an opportunity to improve the flow of information to Parliament on the nature, extent and results of the government's involvement in mixed and joint enterprises.

2.29 We believe also that a consideration by the government of the full range of issues involved in the accountability of mixed and joint enterprises would be especially timely in light of the government's announced intention to privatize a number of Crown corporations, including, for example, Canadian Arsenals Limited, Teleglobe Canada and Canadair Limited. Experience in other countries and jurisdictions shows that the privatization process can result in governments retaining some ownership interest in privatized corporations either permanently or during a transitional period – thereby creating new mixed and joint enterprises.

CHAPTER 6 - PUBLIC SERVICE COMMISSION

2.30 The Public Service Commission (PSC) is responsible to Parliament for administering the Public Service Employment Act (PSEA) and, as a result, for ensuring that all public service staffing activities comply with the merit principle. The PSC also has other responsibilities, the most important being the delivery of language training and staff training and development programs under agreements signed with Treasury Board in 1982.

Staffing

2.31 Approximately 98 per cent of all appointments made under the Act have been delegated to departments. The Commission's responsibilities are thus to give direction and supervise the staffing system. By auditing departmental staffing activities and operating an appeals system for appointments and demotions or releases for incompetence or incapacity, the PSC ensures that staffing activities are conducted in accordance with the PSEA and its policies.

2.32 **Inadequate mechanisms for analysis and monitoring.** Our examination of the Commission's means of directing and supervising the staffing system revealed that the Commission does not analyse the needs and problems encountered by the public service as a whole in the use of the staffing system. The PSC does not monitor staffing operations in departments. Nor does it monitor the administration of exclusion approval orders by departments, despite the fact that a special audit by the Commission revealed signs of abuses in the system. The Commission has little information about the appropriateness and effectiveness of its staffing policies.

2.33 **Audits of staffing lack rigour.** The quality and quantity of audit work done to ensure that staffing activities are conducted in accordance with the PSEA and the merit principle cannot be assessed on the basis of information contained in the working paper files. We found weaknesses in the planning, execution and reporting phases of audit projects. The Commission was aware of some of these weaknesses because it issued directives on working documents and introduced a project management system during 1984-85. These measures will not, however, correct the weaknesses we observed in the training and supervision of auditors and in the review of audit work.

2.34 **Adequate management controls over central services offered by PSC.** With respect to its non-delegated responsibilities, the Commission operates a national inventory of applicants so that Canadians in all parts of the country can have equal access to federal public service jobs. The PSC also provides central services to departments, such as administering language tests, operating a lateral transfers system and operating a priorities system so that employees declared surplus or laid off can be given first consideration for public service jobs. The Commission has exercised adequate management controls over its outside recruitment activities and other central services provided to departments.

Language Training

2.35 The Commission's language training program is one of those introduced by the government to meet the requirements of its official languages policy. The PSC's role is to develop and give language training courses, while the role of Treasury Board is to set policy and strategic objectives for language training, assess training needs, determine the level of funding, and evaluate the policy.

2.36 **Decline in demand but not in resources.** The overall demand for language training has declined by 20 per cent over the past three years. The resources the PSC devotes to teaching have remained relatively stable, however, resulting in a 16 per cent decline in efficiency. In other words, the present number of student-hours could be provided with 79 fewer person-years. The surplus resources have been assigned to preparation and other teaching-related activities, teacher training and new course development. The PSC approached Treasury Board in September 1984 with proposals for new course arrangements to reflect the decline in demand and make better use of its resources.

Staff Training and Development

2.37 The PSC offers a staff training and development program within the framework of Treasury Board's 1981 training policy. Under a 1982 agreement between the two agencies, the Commission is responsible for developing and delivering training for departments. The responsibility for developing and evaluating the federal training policy rests with the Treasury Board.

2.38 **Progress made in administration.** Since 1981, the PSC has made marked progress in its administration of training. The choice of courses offered has been rationalized, and the human resources devoted to training have been reduced. The Commission has been able to move from a deficit in the revolving fund that finances the Staff Development Branch to a position where it is now recovering its costs.

Program Planning and Evaluation

2.39 **No program evaluations done to date.** The PSC has had an integrated corporate planning and control system since 1977-78. We found certain elements of the system to be in line with central agency directives. At the time of our audit, however, the Commission had not yet evaluated any of its programs, despite the fact that it has been eight years since the Commission set up its corporate management system and the Treasury Board issued its program evaluation policy.

CHAPTER 7 - CUSTOMS CANADA

2.40 Customs is one of the oldest government programs, based on legislation dating back to 1848. It administers 70 legislative acts, most of them on behalf of other government departments such as Immigration, Agriculture, and National Health and Welfare.

2.41 In 1984, Customs collected about $5 billion in revenue – nearly 9 per cent of the government's total revenues. To do so, it processed some 12 million cargo control documents that list goods being imported. The Department also processed close to 80 million international travellers that entered Canada.

2.42 Customs must be rigorous in enforcing the various acts it administers, but it must also be sensitive and responsive to legitimate needs and expectations of importers and travellers. To carry out its varied and complex tasks, Customs had a budget of $281 million in 1984-85. Almost nine-tenths of it was used to pay a staff of about 7,800 people.

2.43 **Audit scope.** The theme of our audit was "Delivering the Customs Mandate". We reviewed departmental management principles and practices as they relate to operations and mandate delivery and the process the Department uses to convert legislation into operating procedures. We examined to what extent Customs keeps the public informed about the need to comply with the law. The audit also covered the operations of facilitating and controlling the entry of international travellers and commercial imports. Finally, we report on the extent to which Customs has objective and reliable information about compliance in its port operations and about its success in detecting non-compliance.

2.44 We conducted a previous comprehensive audit of Customs in 1978. Wherever applicable, we compared the current status of Customs operations to their status at the time of our 1978 audit.

2.45 **Progress has been made since our 1978 audit.** Customs has made progress in a number of areas. Management has established a climate in the Department that fosters co-operation and team work; it is professional and businesslike. The Department addressed many of the recommendations we made and has developed and published a statement of operating principles that guides departmental policies and activities in important areas. It has also produced a code of conduct and a system of accountability contracts between supervisory personnel and those to whom they report.

2.46 **Improvement in communications.** The relationship between the Department and the Customs Excise Union is professional and objective. Communications between the Department and customs brokers are open and are being used regularly. The Department is following a policy of sensitivity and responsiveness in dealing with the public.

2.47 **Administering legislative acts for other departments.** The Department has a formal mechanism in place to negotiate agreements with its client departments. It converts the agreements and other relevant legislative acts into operating procedures and directives for use by Customs Officers across the country. In some cases, the application of these directives is not uniform. To reinforce consistent application of these directives, the Department is planning to establish a monitoring program.

2.48 **Service to the public.** The Department recognizes service to the public as an important part of its mandate delivery. It has established channels to disseminate information and to communicate with the public. Where justified, it makes interpreters available to communicate with people who do not speak Canada's official languages. Our observations indicate that Customs Officers are generally treating the public with courtesy and are following the published code of conduct.

2.49 **Processing international travellers.** During 1984, about 80 million international travellers entered Canada and reported to Canadian Customs Officers for questioning and for examination of baggage. The department's objective is that no traveller should have to wait more than 30 minutes to complete Primary Inspection. We noted that this objective is met in most cases. The primary purpose of the Customs passenger program is one of protection. Part of this protection function is the detection of terrorists and illegal immigrants, and of items such as firearms, narcotics, pornography and agricultural hazards.

2.50 We noted some uncertainty on the part of Customs Inspectors as to whether they were expected to concentrate primarily on sensitivity and responsiveness or on detection, deterrence and enforcement. The Department has recognized this problem and is taking steps to clarify the issue.

2.51 **Commercial program.** Besides processing international travellers, Customs' other major activity is the commercial program. It is designed to facilitate the entry of permitted goods into Canada, together with assessing and collecting the correct amounts of duties and taxes. During 1984, Customs collected about $5 billion of such revenue. We noted some room for improvement in the control over cargo documents and the declaration of goods, and in the identification of high-risk shipments. The Department is taking steps to improve these aspects of its operations.

2.52 The Department has developed a large computer system to assist its Commercial Program. This system has been implemented at 33 sites across Canada. During our 1978 audit, we noted a number of weaknesses in the operations of the Commercial Program. The Department stated at that time that many of these concerns would be alleviated through further development of the data base and data retrieval features of its computer system. Since only part of that system has been implemented to date, a number of weaknesses remain, particularly in the area of selecting entries for examination and assessment. The Department is continuing to develop and implement further modules of its computer system.

2.53 **Measuring and reporting enforcement results.** The Department has made progress toward measuring and reporting enforcement results in its Customs Port Operations. In Passenger Operations, an ongoing system has been implemented that measures the levels of voluntary compliance by air travellers and the Department's own success in detecting non-compliance. There are some problems of data objectivity in this system.

2.54 In Commercial Operations, the Department does not yet have satisfactory procedures in place to measure and report on the level of compliance. In its response to our recommendation, the Department indicates that there is work in progress to determine the most cost-effective procedures for obtaining this information.

2.55 **Need to intensify efforts concerning sufficient reliable information.** Over the past few years, the Department has made it easier for importers and travellers to comply with Customs regulations. In some specialized areas, such as detection of firearms, narcotics, explosives and pornography, the Department's enforcement activities are more intense than they were some years ago. On the other hand, the Department has fewer resources than it had in earlier years, it is coping with a larger work load, and it has insufficient objective and reliable information on the public's compliance and on its own success at detecting non-compliance. It is possible therefore that the deterrent and enforcement aspects of Customs in some other areas may have diminished. Despite past efforts, the Department still does not have sufficient, reliable information to determine to what degree this might be the case. In our view, the Department needs to intensify its efforts to acquire sufficient objective and reliable information about the level of compliance by the public and about its own success in detecting non-compliance. The Department recognizes the importance of having such information and is re-examining the means of obtaining it.

CHAPTER 8 - ATOMIC ENERGY CONTROL BOARD

Background

2.56 The Atomic Energy Control Board (AECB) was established in 1946 to control and supervise the development, application and use of atomic energy and, on behalf of Canada, to participate in measures of international control of atomic energy.

2.57 The Board's regulatory focus is now in two areas: radiation health and safety of workers and the public, and security including safeguarding certain prescribed nuclear materials to prevent their use in the fabrication of nuclear explosive devices.

2.58 The Board's legislation, little changed since 1946, gives it a broad but skeletal mandate. Its activities are guided by regulations, made by the Board and approved by the Governor in Council; Parliament has provided little detailed guidance on the purpose or conduct of AECB activities.

2.59 In the area of health and safety, the Board exercises regulatory control through a comprehensive licensing and inspection system. This covers all aspects of nuclear facilities and dealings in certain prescribed substances and equipment.

2.60 Canadian nuclear policy is to promote the peaceful use of nuclear energy and the non-proliferation of nuclear weapons. This policy is reflected in the obligations and commitments assumed by Canada in entering into various nuclear co-operation agreements with her trading partners and by becoming a party to the Treaty on Non-proliferation of Nuclear Weapons in 1970. Pursuant to this Treaty, Canada has agreed with the International Atomic Energy Agency (IAEA) to establish controls over nuclear materials and to have its facilities inspected by the IAEA.

2.61 In general, non-proliferation is pursued internationally by having the IAEA monitor the peaceful uses of atomic energy to ensure that the diversion of nuclear materials to nuclear weapons will not go undetected. If diversion is detected, international sanctions can be applied. AECB is responsible for administering Canada's obligations and requirements under these agreements inside Canada. AECB also controls the export of nuclear materials, equipment and technology.

Scope

2.62 We examined the management controls and administrative procedures in the AECB's licensing and inspection activities as they related to health and safety. In the area of security, we reviewed its administration of activities conducted in fulfilling Canada's commitments for the non-proliferation of nuclear weapons. It is important to note that we did not assess the appropriateness or effectiveness of the various procedures. We also inspected the AECB's key administrative support systems.

Licensing and Inspection System

2.63 In each area of AECB responsibility we found well defined licensing and inspection procedures; we did not find any significant weakness in the administration of this activity.

Regulatory Framework

2.64 The AECB uses a co-operative, co-ordinated process to create a regulatory framework consisting of regulations, regulatory policy statements, generic licence conditions and regulatory guides. This process is generally well controlled and allows participation by the public and others.

2.65 An important step in developing a regulation is an analysis of its socio-economic impact. Such an analysis is called for when the impact is expected to be major. The AECB, consistent with government practice in this area, has not yet done a full-scale socio-economic impact analysis on any of its regulations. However, we believe it should develop procedures for conducting socio-economic impact analyses that are specially designed to suit the various sectors and components of the atomic energy industry.

Non-proliferation of Nuclear Weapons

2.66 We found no significant weaknesses in the administration of AECB activities in relation to non-proliferation of nuclear weapons.

Human Resource Management

2.67 The human resources of the AECB are critical to organizational success. We found that people were being managed in a way that fostered personal commitment and enthusiasm for achieving their objectives.

CHAPTER 9 - DEPARTMENT OF THE ENVIRONMENT - ATMOSPHERIC ENVIRONMENT SERVICE

2.68 The Atmospheric Environment Service (AES) is the sole agency responsible for forecasting the weather over the majority of the Canadian land mass, adjacent sea areas and certain international air corridors. Since 1971, AES has expanded its services to include new emphasis on air quality, ice services, climatological services and the application of these to a broad range of environmental and socio-economic problems.

2.69 **Audit scope.** Our audit focused on the weather services activity which accounted for $151 million, or 72 per cent of AES's budget. We concentrated on the systems that carry out two critical functions: the preparation of regional forecasts and the dissemination of weather forecasts to the ultimate users. Regional weather forecasts are AES's most important products. In cases of severe and volatile weather situations, the quality of the forecast and its dissemination can affect the survival and livelihood of Canadians.

2.70 In addition, we examined selected significant transactions with a view to assessing whether they were carried out in general accordance with relevant government authorities and with due regard for economy and efficiency.

2.71 **Responding to the demand for specialized weather services.** **In addition to its basic weather forecasting services, AES receives and attempts to respond to an almost unlimited quantity and range of demands for specialized weather forecast services. However, it does not manage its response in a manner that recognizes:**

- what should be provided as an essential public service and what can and should be done by other agencies of government and the private sector;
- what services should be provided at public cost and what should be subjected to cost recovery; or
- who should disseminate weather information and how.

As a consequence:

- there are inconsistencies in the provision of specialized services;
- there is a risk that the growth of the private meteorological sector is being inhibited;
- potential revenue to the Crown is being lost; and
- the relationship of AES with the broadcast media provides little control over the quality of the delivered weather forecasts or assurance that Canadians most affected by weather warnings are receiving appropriate information as to how to react.

2.72 **Importance of professional forecasters.** The critical personnel in a regional forecast centre are the professional meteorologists on the forecast team. The preparation of the regional forecast requires considerable professional judgement. Since the regional forecasts are its most important products, AES should have, and should be encouraging, an effective process to identify and retain its most skilled professional meteorologists in a forecasting role. We found no effective process of this kind in place and concluded that forecasting is used more as a training ground for higher-paid staff positions – non-forecasting – than for grooming future senior forecasters and shift supervisors.

2.73 **Quality assurance.** Quality assurance is an aspect of management control over forecast preparation that ensures that forecast products are of appropriate quality before the public is informed. It involves having appropriate management scrutiny and peer review measures in place to support the exercise of professional judgement. It is very important because weather forecasts contain information on the basis of which users make decisions that often involve irrevocable commitments.

2.74 Although, in general, forecasts are produced on schedule and in the format prescribed by AES management, there are weaknesses in the application of quality assurance to forecasts prior to their release. This means that AES cannot be assured that it is producing forecasts of the quality that it is capable of producing. Therefore, there is a need for AES to recognize explicitly the importance of quality assurance as an integral part of weather forecast preparation, through better organization and use of existing personnel.

2.75 **Management information.** For AES to manage the overall forecast production process, it needs information from a client/user perspective, on the accuracy and usefulness of the weather forecast products, and from an operational perspective, on the different factors contributing to the overall accuracy and usefulness of the forecasts.

2.76 We found that AES has limited information to indicate how well it is doing or where to change its operations to do better:

- Although considerable time and effort have been dedicated to systems designed to measure the accuracy of AES numerical weather prediction guidance and regional weather forecasts, they yield limited useful information on which management can act in terms of improving the forecast.

- Management has very limited diagnostic information relating to how various factors such as forecaster skill, workstation environment, numerical weather prediction guidance, weather observations, satellite imagery, or communications contribute to the accuracy of the weather forecasts.

2.77 **Other observations.** In addition to the audit work reported above, we also carried out department-wide transaction reviews. Most of the 57 transactions reviewed met the applicable audit criteria. The major exceptions are summarized below.

2.78 **Building leased for the installation of major computer equipment.** AES and its agent, the Department of Public Works (DPW), were placed in a "captive tenant" position when negotiating a renewal of a lease (October 1980 to September 1985) for a building that contains the Canadian Meteorological Centre (CMC) in Montreal. A further renewal in 1985 resulted in a 20-year lease that could cost the Crown substantially more than might have been necessary had suitable alternative arrangements been more actively pursued in time.

2.79 **Major computer acquisition.** In 1981, AES prepared a needs analysis proposing to update its numerical weather prediction facilities that produce guidance and other material for Canadian weather forecasters. This needs analysis was to be used to seek approval in principle to enter into a procurement process that ultimately resulted in a commitment of $32 million for leasing computer services over a 10-year period.

2.80 We found that the material presented for decision making was not sufficiently complete and reliable for the purpose of approving an expenditure of this magnitude.

2.81 **Contract for the supply of aircraft for ice reconnaissance.** Since 1972, AES has contracted with the private sector for the provision of aircraft, crews and equipment to conduct year-round surveillance of ice conditions in Canadian waters. Our review of the management of these service contracts over the last three years revealed certain questionable practices. These relate to overpayments in the areas of the cost of scheduled air flights for crews, in-flight meals and certain bonus provisions that were paid but not earned according to the conditions of the contract. For the three-year period reviewed, these overpayments and potential overpayments amounted to at least $200,000.

In contrast, we found no irregularities over the three years in the administration of contracts for aircraft use and fuel costs which amounted to approximately $9 million.

2.82 Since our audit, the Department has taken measures to recover the overpayments from the carrier and to ensure that, in future, payments will only be made in accordance with the terms of the contract. It has also ceased paying daily meal allowance to employees involved in ice reconnaissance.

CHAPTER 10 - LAW REFORM COMMISSION

2.83 The Law Reform Commission of Canada (LRC) was established under the Law Reform Commission Act in 1971. Its objective is to study and keep under review the laws of Canada with a view to making recommendations to Parliament for improving, modernizing and reforming them. In 1984-85, the Commission had a budget of $5 million and 47 person-years.

2.84 We examined the systems and procedures used by the Commission in managing its projects. We also examined the Criminal Law Review project in which the Department of Justice and the Ministry of the Solicitor General also participate.

2.85 **Research program not updated.** The Commission is required under its Act to "...prepare and submit to the Minister from time to time detailed programs for the study of particular laws or branches of the law...". In March 1972, the Commission submitted a program to the Minister who tabled it in the House of Commons. The Commission estimated three years for completing this research program and also envisaged submitting supplementary programs relating to further specific areas requiring reform.

2.86 The Commission has not revised its original research program or submitted a supplementary or second program, although changes in its work have taken place and significant delays have occurred. Many of the original projects are still in progress 10 years after their scheduled completion date.

2.87 **Program effectiveness not measured.** The Commission is not satisfied with its impact on legislative change; in its 14 years, some recommendations from 5 of its 22 reports have resulted in new or amended legislation. Recommendations from many other reports were included in bills that died at the end of various sessions of Parliament. As documented in its annual reports, the Commission has had an impact on judicial decisions, legal education and research. However, it has not measured the achievement of its objectives.

2.88 **Project management direction needed.** Since its establishment, the Commission has managed many projects and sub-projects, mostly carried out by outside consultants. However, it has not developed a system and methodology that would provide for the use of at least minimum project management standards and the application of consistent project management procedures and discipline. A project management guide or directive would be a useful starting point for this purpose.

2.89 **Undocumented contracting procedures.** The Commission has not documented its contracting procedures or set out its minimum expectations for project co-ordinators and consultants.

Audit of Management Procedures of the Criminal Law Review

2.90 We examined the Criminal Law Review project, in which the Law Reform Commission, the Department of Justice, and the Ministry of the Solicitor General all participate. Our purpose was to assess the appropriateness of the management process. We did not audit the appropriateness or quality of the research or draft legislation produced by the project.

2.91 Since the introduction of the Criminal Code of Canada in 1892, many royal commissions and interested groups have recommended a review and revision of the Criminal Code of Canada. Parliament created the Law Reform Commission in 1971 and the work on Criminal Law reform started. Progress on this large task was slow, so, in 1980, to accelerate the process, the Minister of Justice announced that a new mechanism involving the Law Reform Commission, the Department of Justice, and the Ministry of the Solicitor General was being put in place, with close working relationships with other ministries and with the provincial and territorial governments. The government provided additional resources to the Commission and the two departments for use in the Criminal Law Review.

2.92 **Significant delays in completing planned work.** The objectives of the 1981 Criminal Law Review project were broad statements that defined the intent of the Review as the production of a new Code. But they provided little guidance to managers involved, particularly since the objectives were not defined in operational terms. At the time of our audit, many of the sub-projects were not complete and some had not started. Given the delays, it is unlikely that the Criminal Law Review, as set out in the 1981 plan, will be completed by October 1986 as planned.

2.93 **Inadequate work planning and scheduling.** The Review is a complex research-based endeavour involving three entities. The project has three phases and each participant has distinct responsibilities with regard to each phase.

2.94 The work planning has not been adequate to support an interdepartmental project of this size and complexity. Work planning has constituted a list of project titles with target dates, unsupported by any detailed tasks or resource analysis. Commitments to milestones and deadlines set out in the workplans have not been kept; they have changed frequently.

2.95 **Lack of control and monitoring.** The overall management of the Criminal Law Review is the responsibility of an Executive Committee, chaired by the Deputy

Minister of the Department of Justice and including the Deputy Solicitor General and the President of the Commission. The Committee has delegated many of its responsibilities to a Program Management Group. This group includes the Assistant Deputy Ministers from the two Departments and the project Co-ordinators from all three organizations.

2.96 There has been no statement of roles and responsibilities for either group. There is also a lack of formal decision-making procedures.

2.97 Although the Department of Justice was designated as a lead agency for the Review, it has not actively pursued this lead role. We believe that the Department of Justice has provided insufficient interdepartmental work planning and monitoring to support the Executive Committee. Justice's lead role is made difficult by the autonomy and independence of the Law Reform Commission and the Ministry of the Solicitor General in that it has no authority to compel them to comply with the decisions of the Executive Committee or with the workplans.

2.98 **Inadequate co-ordination of consultations.** Consultation on its research and study papers is a major activity for the Review, and all three organizations are involved. We noted a lack of overall planning and co-ordination for consultation activities, which has led to some duplication of consultations, and a lack of a clear record of what benefits are derived from the consultation process.

CHAPTER 11 - CANADIAN HUMAN RIGHTS COMMISSION

2.99 The Canadian Human Rights Commission (CHRC) was established in 1978 under the Canadian Human Rights Act. The Commission's mandate is to accept and investigate complaints of discrimination, arrive at settlements in cases of discrimination, and combat discriminatory practices and policies through information, persuasion and research. Although all Canadians may seek recourse under the Act, the Commission estimates that over 3 million employees of the 1,500 organizations subject to the Act are more likely to do so. In 1984-85, CHRC's budget was $9.2 million and 156 person-years.

2.100 Our audit focused on the Commission's major program activity – processing complaints from individuals. We also examined the Commission's interpretation of its role and mandate and its strategic and operational planning.

2.101 At the time of our audit, the Commission had recognized the need for improving its management process. It was clarifying the roles and responsibilities of its staff, designing training programs, initiating a management reporting system, and streamlining the complaints management process. We were unable to assess the impact of these changes, given that they were mostly in the development or early implementation stages.

2.102 **Need to clarify role and mandate.** The Commission's mandate to reduce discrimination and to promote equal opportunity for all is virtually unlimited in its scope.

The Act confers a twofold power of intervention on the Commission – as an enforcing agent and as an entity for advising and informing organizations by making available educational programs, instructional materials and research findings. The Commission is required to play a reactive role in dealing with individual complaints, and it has favoured a persuasive approach in dealing with employers, unions and minority groups. Under its mandate, the Commission can take an active role in examining discriminatory practices in organizations and it can initiate complaints on its own. So far it has initiated very few. Its twofold mandate results in a dual role, placing it in a difficult position. Therefore, the Commission needs to identify clearly how it intends to interpret its mandate and in which ways it plans to fulfil it. This definition could then be the basis for strategic and operational planning.

2.103 **Limited planning, but annual objectives are clear.** The Commission's planning has so far been limited to the development of an annual operational plan – determining and communicating annual objectives and priorities and allocating resources. Managers give priority to operational planning and annual objectives are clearly defined, quantified and discussed internally. They are used for quarterly reviews and managers' performance appraisals.

2.104 The Commission, however, has not implemented a strategic planning process or developed a strategic plan. We found no evidence to indicate that it had examined options and their potential impact on resource requirements or analysed data relating to its environment to support planning. The Commission needs to develop a strategic plan and conduct its operational planning within that framework.

2.105 **Increased backlog and delays in investigating complaints.** Since its establishment, the Commission's major operational challenge has been to develop and implement a management system that would enable it to investigate complaints promptly and efficiently. So far it has been unable to do so for a large proportion of its cases.

2.106 Of the 2,352 complaints accepted by the Commission since its creation to 30 June 1984, approximately 39 per cent took over 12 months to deal with. These delays are significant in relation to the six-month time frame that the Commission's managers believe it should take to process an average case.

2.107 These delays in handling complaints have a major impact on the backlog of cases. At 31 December 1984, the backlog represented over two years of work at the current rate of handling cases.

2.108 To understand the nature of delays, we examined 81 cases that had taken over 18 months to complete or that were still active after 18 months. In our analysis, we found that there were unusual delays in the assignment, investigation, case analysis and reporting phases. The cause for the delays in the investigation phase included the heavy workload of investigators, changing investigators, failure of respondents to supply information promptly, a lack of follow-up by investigators and unavailability of complainants. The Commission had identified the major deficiencies in the complaints management process and was planning corrective action.

2.109 **Deficiencies in the complaints management process.** Many of the delays and the backlog are caused by deficiencies in the complaints management process. These include unclear definitions of the roles and responsibilities of regional and headquarters staff that have caused inadequate or late input from specialists, confusion over "ownership" of recommendations in case reports, and friction between headquarters and regional staff.

2.110 Further, the Commission has not validated its performance and work standards, such as elapsed time and staff time to be spent on an average case. These standards are needed for planning and controlling work and for justifying resource requirements.

2.111 **Lack of methodology and work tools.** The Commission lacks standard methodology and sufficient work tools to guide investigators in their investigations. Tools, such as pre-investigation and investigation plans, that are recognized by the management as being useful, are often not used and standards for file preparation, time recording, and supervisory reviews are not in place.

2.112 **Quality control standards not identified.** Regional Directors and the Complaints and Compliance Branch at headquarters have a quality control role in reviewing the investigations. The reviews by the Regional Directors are ongoing, whereas those by the Complaints and Compliance Branch are after-the-fact. At the time of our audit, their respective quality review roles were being defined and clarified. The Commission has not identified and documented its quality control standards so they can be communicated to investigators.

2.113 **Unreliable management information systems.** The Commission's manual and computerized management information systems do not provide reliable and accurate key operational information such as status of active cases, the handling and disposition of similar cases in various regions, and time spent by investigators on each case. A new management reporting system, intended to address the major information needs of management, was initiated in January 1985.

CHAPTER 12 - DEPARTMENT OF REGIONAL INDUSTRIAL EXPANSION

2.114 The Department of Regional Industrial Expansion (DRIE) was created in December 1983 from the merger of the former Departments of Industry, Trade and Commerce (ITC) and Regional Economic Expansion (DREE). DRIE's objective is to increase overall industrial, commercial and tourism activity in all parts of Canada and, in the process, reduce economic disparity across the country.

2.115 The Department pursues this objective through direct financial assistance programs and other programs involving non-financial assistance. In 1984-85, DRIE's expenditures were $1,070 million, with expenditures on direct assistance programs amounting to $837 million, or roughly 78.2 per cent of the total.

2.116 The reorganization activity involved in creating DRIE was being completed at the time of our audit. The Department had to deal with the resulting changes and disruptions at the same time as it was launching the new Industrial and Regional Development Program which was intended to become DRIE's main instrument for providing direct assistance to industry. The systems and controls needed to administer this program, as well as others that continued in the new organization, had to be developed and implemented during a difficult transition period.

2.117 Most of DRIE's assistance programs are highly discretionary. The Minister has wide authority to approve or reject specific project proposals, and considerable approval authority has been delegated to departmental staff. Two of DRIE's major programs, the Industrial and Regional Development Program and contributions under Federal-Provincial Subsidiary Agreements, are delivered primarily by DRIE's regional offices.

2.118 **Corporate direction and control.** The discretionary nature of DRIE's programs, together with its decentralized organization, places a requirement on corporate management to have in place effective procedures for guiding and reviewing program activities, and to have timely, complete and accurate information on these activities. We found problems in these critical areas of corporate control.

2.119 Key criteria in the governing legislation of DRIE's major industrial assistance programs require that a project must make a significant contribution to the economic or social benefit of Canada, and that there must be a need for DRIE assistance for the project to proceed. However, these requirements have not been translated into operational terms that are specific enough to guide decision making on individual projects. Consequently, we observed several projects that were funded where the need for DRIE assistance was questionable or where the statements of expected benefits were increased to a level that was not supported in file documentation.

2.120 There was little or no corporate review of projects approved under delegated authority, and there were several areas where, in our opinion, policy direction was required.

2.121 The Department had been required to implement new program management information systems in a relatively short time. Although the systems were operational, there were serious errors in the data they contained. However, by the end of our audit, action was under way to correct the problems we noted.

2.122 **Program delivery practices.** The lack of corporate guidelines and review procedures, together with the focus on obtaining approval for particular projects, has created an environment that led to many of our observations on some practices followed by the Department in reviewing and approving projects under various programs. These included:

- the approval of projects of questionable eligibility under program legislation, regulation, or other governing directives;

- a tendency to increase the statement of benefits expected from a project beyond what could be supported by the information on file;
- the presentation of information for decision making that was inaccurate, incomplete or not consistent with what was contained in project files; and
- instances of non-compliance with governing program authorities.

2.123 The Department recognizes the need to strengthen management controls and proposes to establish corporate accountability centres to oversee the planning, development and monitoring of program operations.

2.124 **Follow-up to 1982 audit - Defence Industry Productivity Program.** Although some action has been taken in response to the observations in our 1982 report on the Defence Industry Productivity Program, many of the issues we raised are still present. These include the need to finalize guidelines on how to apply key criteria in assessing DIPP projects and the need to link the level of assistance provided with the applicant's need for assistance. Problems relating to project monitoring and audit, and repayment of Crown assistance have also not been completely resolved.

2.125 **Program evaluation.** The Program Evaluation Branch has responsibility for the evaluation activity across the Department, but it did not take an active role with respect to monitoring the evaluation work carried out in regions. In a number of instances, evaluations of subsidiary agreements had not been carried out as required. Procedures had not been established under which recommendations from regional evaluation studies could be accepted or rejected and action plans developed to implement accepted recommendations. Also, the Branch had not been monitoring whether data needed for effectiveness measurement of the Industrial and Regional Development Program were being collected.

2.126 **Internal audit.** We observed that Internal Audit had an appropriate reporting relationship and an unrestricted mandate. However, because the approach it uses does not include sufficient testing of specific projects, it cannot provide assurance to senior management that program authorities are being complied with and that systems and controls are functioning effectively.

CHAPTER 13 - DEPARTMENT OF TRANSPORT - CANADIAN AIR TRANSPORTATION ADMINISTRATION

2.127 The Canadian Air Transportation Administration (CATA), an arm of the Department of Transport, spent $1.219 billion in 1984-85 to provide a wide range of airport, navigation and regulatory facilities and services. Revenues from airlines, passengers and other user charges designed to recover the cost of aviation services exceeded $541 million. The shortfall – the net cost to the government – after removing the impact of inflation, has gone up 25 per cent, since 1980-81, to $678 million in 1984-85. Although this represents a cost-recovery rate of only 44 per cent, it is higher than for other modes of transportation under federal jurisdiction.

2.128 The requirement for economy and efficiency through cost recovery is stated in legislation along with provision for exceptions in support of public policy. The system of major airports and associated navigation facilities has been expected by the Government to recover its costs fully, whereas many regional and remote airports and en route navigation facilities and regulatory activities are recognized as needing some financial support.

2.129 **Audit scope.** We examined whether due regard had been paid for economy in planning and developing airports and air navigation facilities and for efficiency in operating airports and related facilities. We paid particular attention to financial management and the approach followed to achieve the cost-recovery mandate of the Program. Also, we examined the financial performance of the Program, recognizing all direct, indirect and interest costs associated with the government's investments in air transportation. In addition, we assessed departmental corporate controls such as the role of the Senior Financial Officer, Internal Audit, and Program Evaluation.

2.130 **Lack of due regard for economy and efficiency.** Although the role of the Department is to provide a safe and efficient air transportation system, in recent years, senior management of CATA has been primarily concerned with safety, in response to the Dubin Commission's Report on Aviation Safety. Questions relating to the economy and efficiency of the system have not been addressed with the same sense of urgency.

2.131 **Developing airports and providing associated air navigation services.** We found that there should be a greater regard for economy and efficiency in the development of airports and navigational systems and in certain of their operations. Components of the air transportation system show escalating costs and most airports and associated facilities are unable to recover their costs. There is a trend of declining cost recovery that puts an increasing burden on taxpayers. The situation may worsen. Major capital projects in air navigation systems are in the development stage, without a commitment from users on their willingness and ability to pay for the scale of investments proposed.

2.132 **Lack of financial discipline.** Our audit points out that a lack of financial discipline with regard to costs has been a major contributing factor to the deteriorating financial picture in CATA. For the 23 Canadian airports that make up the system of mature airports expected to recover their costs fully, no targets for financial results were set for individual airports and other operating units. There was a failure to cut capital and operating expenditures in spite of reduced revenues caused by a decline in traffic; uniform national levels of service, operating standards and labour practices were applied without sufficient regard for their financial implications; expenditures were made, with little or no expectation of full cost recovery, for the benefit of smaller planes used by firms and individuals for business and recreation; and increasing subsidies to municipal airports were provided without up-to-date eligibility criteria.

2.133 **Inadequate consideration given to obtaining cost recovery commitments from users.** A major failing is that the economy and efficiency that could be derived through cost recovery have not been achieved. Development and operations have not been adequately tied to any financial or market test. Charges are not closely related to cost. Cost accounting has not been developed for specific facilities and services. Decisions that affect cost are taken without adequate consideration of whether there will be offsetting revenues, there being no mechanism and little incentive to consider cost recovery implications adequately before commitment is made to new expenditures. The Radar Modernization Project ($810 million) is one example. The airport and airside development at Hamilton's Mount Hope Airport ($49 million) is another.

2.134 **Little accountability for containing costs.** Part of the financial support provided to the air transportation system may be justified in pursuit of other government objectives for which transportation users should not be expected to pay. However, we were unable to assess the extent to which the rising cost of the system could be fairly attributed to these other objectives, since CATA had not documented what results were expected by the government. The cost of meeting the other objectives has not been segregated from the costs that are recoverable from users. This is a major weakness in the financial management of the Program. As a result, there was little accountability for containing costs or incentive for optimizing revenues.

2.135 Our audit noted that a number of improvements might be pursued in the following areas: cross-utilization of labour and more appropriate maintenance standards at Canadian airports and related facilities; increased revenue from marketing space at airports and disposing of idle lands; reduced overheads at headquarters and in the regions; reduced overlap between certain air traffic control and flight service stations; reduced frequency of inspection of navigation aids without sacrificing safety; increased leasing of aircraft as opposed to owning aircraft used for checking navigation aids and training personnel; and an improved process for challenging the financial implications of proposals, including a strengthened role for the Senior Financial Officer.

2.136 **Restructuring the Program.** The Department informs us that Government constraints have limited its ability to manage on a commercial basis. There is little question that competing priorities make it more difficult to hold managers accountable. However, the Government has now announced that a new management structure for Canadian airports will be introduced. Major adjustments will be made, although they will take some years to complete. Restructuring the Program will include defining more clearly the federal role in operating the air transportation system and re-examining the existing centralized approach to owning and managing the extensive airport and associated facilities.

2.137 **Department will address concerns.** The Department's response to our recommendations indicates that many of the issues dealt with in the chapter will be addressed. The general principles for changes to be introduced will be that overhead reductions and the elimination of perceived overlap in activities are the first priorities. The Department informs us that the establishment of the Program Control Board has been a first step in this challenge process. To the greatest extent possible, transportation activities and operations will be streamlined. The Department has established the Airports Authority Group which is examining opportunities for making the airport system more financially viable. In all these actions, of paramount importance, the Department suggests, is emphasis on efficiency and economy through cost recovery in all areas of Transport, in order to minimize the overall cost to the general taxpayer.

AUDIT NOTES

AUDIT NOTES

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3

AUDIT NOTES

Introduction

3.1 This chapter contains matters of significance that we believe should be drawn to the attention of the House of Commons that have not been reported elsewhere in the Report, but have come to our attention during our audits of the accounts of Canada, Crown corporations and other entities.

Cash Management

3.2 Chapter 4 of the 1984 Report, Review of Cash Management, reported a number of deficiencies identified in the course of carrying out our review of billing, collection, deposit and payment practices in 10 departments and agencies.

3.3 Actions have been undertaken recently by the Treasury Board Secretariat, the Office of the Comptroller General and the Receiver General to improve cash management practices of the government as outlined in their responses to observations made in paragraphs 4.26 to 4.41 of the 1984 Report. However, as a result of our current audit work in support of our opinion on the Public Accounts of Canada, we have a number of additional observations on cash management which are presented in the following cases.

Case 1

3.4 Ministry of Energy, Mines and Resources - Cash Provided to Petro-Canada in Advance of Need

> In late March 1984, the Minister of Energy, Mines and Resources subscribed for $425 million in common shares of Petro-Canada. It appears that Petro-Canada did not need the funds obtained from this transaction for at least the next six months.

3.5 The 1984 capital budget of Petro-Canada, which was approved by Order in Council in December 1983, had provided for $425 million in common shares, although the timing of the payment was not specified. Section 5(2) of the Petro-Canada Act says, in part: "each such subscription shall be paid out of the Consolidated Revenue Fund at such times as the Corporation may require and the Minister of Finance may approve..." The government was able to make use of funds authorized in the 1983-84 borrowing authority already approved by Parliament by completing the transaction before the end of March 1984, at a time when there was concern about upward pressure on the borrowing requirements for 1984-85.

3.6 According to quarterly and annual financial statements of Petro-Canada, the company's balance of cash and short-term deposits was as follows:

31 December 1983	**$ 55,584,000**
31 March 1984	**$ 494,863,000**
30 June 1984	**$ 681,995,000**
30 September 1984	**$ 653,938,000**
31 December 1984	**$ 32,819,000**

3.7 Based on the balances noted above, it can be deduced that Petro-Canada had excess funds that it was able to invest. A major portion of these excess funds appears to have been derived from the $425 million share subscription.

3.8 The effect of this transaction, which was legally and properly executed, was that funds were provided to Petro-Canada at least six months in advance of requirement. Based on the average yield for six month Treasury Bills, the cost for the government to borrow $425 million for that period of time would have exceeded $20 million. Since then, the government has taken steps to recover surplus cash from crown corporations including $50 million in the form of a dividend from Petro Canada in 1985-86.

Case 2

3.9 Department of External Affairs - Late Remittances by Export Development Corporation to the Consolidated Revenue Fund and Banking Delays by the Department of External Affairs Result in an Unintended Benefit to the Corporation of $775,500

> The Export Development Corporation (EDC) remits to External Affairs funds it has received on accounts administered for Canada for deposit to the Consolidated Revenue Fund (CRF). Although the Receipt and Deposit of Public Money Regulations require that such funds be deposited to the CRF immediately on their receipt, EDC waits until the end of the month before remitting them to External Affairs. By waiting until the end of the month, the Corporation receives an economic benefit. Furthermore, External Affairs does not deposit the cheques on receipt but processes the documentation before depositing the funds, resulting in a further delay. We estimate, based on average yields on short-term investments, that for the 1984-85 fiscal year EDC received an economic benefit of $775,500 as a result of these delays in transferring funds to the CRF.

3.10 The Corporation has explained that it is technically difficult to separate the amounts received by it for its own accounts from the accounts administered for Canada. This precludes the immediate segregation of funds between those for the Corporation and those for Canada. Occasionally, delays of several months may occur before the appropriate amount to be deposited in the CRF is finally determined and remitted. We estimated that, in 1984-85, EDC received an economic benefit of $626,400 on the accounts administered for Canada from the date it received the money until a cheque was sent to External Affairs.

3.11 The Corporation has also explained that it is in the process of developing a computerized financial control system expected to be operational by March 1986. This system will improve control and identification of funds received by the Corporation.

3.12 The Treasury Board Secretariat has been made aware of the issue and alternatives are being investigated. One option would be to have EDC pay interest from the day it received the funds until the day it transferred the funds to External Affairs. This may also apply to payments made to EDC from the Consolidated Revenue Fund.

3.13 There is a further delay from the time EDC sends the cheque, by hand, to External Affairs until the cheque is deposited in the CRF. We estimate the economic benefit received by EDC due to this second delay to be $149,100. The second delay could be avoided if External Affairs made arrangements to deposit the cheques immediately on receipt, completing the paper work later.

Case 3

3.14 Department of Fisheries and Oceans - Loss of Revenue from Loans to Crown Corporations

> The Department of Fisheries and Oceans provides loans to the Canadian Saltfish Corporation and the Freshwater Fish Marketing Corporation to carry out their operations. Delays in collecting and depositing loan receipts have created an estimated loss of $190,000 in revenue to the government.

3.15 In 1984-85, the Department of Fisheries and Oceans provided loans of $112 million to the Canadian Saltfish Corporation and the Freshwater Fish Marketing Corporation and received interest and loan repayments of $88 million.

3.16 The amounts of the loan repayments from the Corporations are large, often exceeding $1 million. These repayments are forwarded by regular mail to Fisheries and Oceans headquarters in Ottawa with the Corporations paying interest only up to the date cheques are mailed. This use of regular mail delays receipt by the Department from between 3 to 13 days. In addition, cheques received in the Department have not always been deposited on the date of receipt as required by government regulations. Delays in depositing cheques range from one to nine days.

3.17 In our opinion, permitting the Corporations to make their loan repayments in this fashion represents a lack of due regard for economy. Delayed receipt of loan repayments has resulted in $120,000 in foregone interest revenue in 1984-85, while delays in depositing receipts have resulted in an additional $70,000 loss in the same period.

3.18 Discussions with departmental officials have indicated that cash deposits are now being made in accordance with government regulations. In addition, the Department has negotiated procedures with officials of the Corporations to ensure that interest is paid to the date payment is received by the Department.

Case 4

3.19 Department of Fisheries and Oceans - Additional Cost for Purchase of Steveston Harbour

> **For the fiscal years 1983-84 and 1984-85, the Department made final payments for the purchase of Steveston Harbour in advance of need. By making these payments before their due dates, the Department saved $110,000 in interest payments. However, the government's cost of borrowing funds for these early payments has been estimated at $210,000. This lack of due regard for economy in cash management thus resulted in a net additional interest cost of $100,000 to the government.**

3.20 In August 1983, Treasury Board authorized the Department of Fisheries and Oceans to purchase property and harbour facilities at Steveston, B.C. from British Columbia Packers Limited for $9,860,000. Under the agreement of purchase and sale subsequently concluded, the purchase price was to be paid in three installments, with the first payment of $3,500,000 due on or before the closing date, the second payment of $3,360,000 on 1 June 1984 and the final payment of $3,000,000 on 1 June 1985. Interest at the rate of 5 per cent per annum was payable on the unpaid balance of the purchase price. The agreement also provided the government with the right to make payments in advance of due dates.

3.21 The first payment was made on the closing date as agreed. The second payment was made on 23 March 1984 and the final payment on 14 December 1984. These payments were made 69 and 168 days in advance of the respective due dates.

3.22 Although the financing cost of 5 per cent under the agreement with British Columbia Packers Limited was significantly lower than the government's overall cost of borrowing at the time, the Department did not take this into consideration in making the decision to prepay.

3.23 By making early payments, the Department was able to reduce the unspent portion of funds voted to it in both the 1983-84 and 1984-85 fiscal years. Because unspent department funds lapse at the end of a fiscal year, there was a clear incentive for the Department to make the payments early – even when it was uneconomical for the government as a whole.

Case 5

3.24 Department of Veterans Affairs and Canadian Pension Commission Inadequate Control Over Veterans' Trust Accounts

> **At 31 March 1985, more than $53 million was being held in trust on behalf of veterans. We found there were inadequacies in the controls over veterans' trust accounts by the Department and the Canadian Pension Commission and in the policy guidance to those responsible for administering these trust accounts for veterans. We noted in the accounts examined that at least**

$412,000 had not been credited to individual veteran's trust accounts, and $264,000 had been incorrectly taken from veterans' accounts to pay for their treatment in foreign hospitals, notwithstanding that this was the Department's responsibility.

3.25 The Veterans Affairs Act, the War Veterans Allowance Act and the Pension Act, together with the relevant regulations, provide for the administration of the affairs of veterans who are incapable of managing their own financial affairs. Individual trust accounts have been set up for this purpose. We noted that there were inadequacies in the policies and procedural guidelines for safeguarding the moneys being administered through these accounts. This has resulted in a poor accountability framework and substantial errors.

3.26 We observed that at least $412,000 had not been recorded in individual veteran's trust accounts, largely as a result of fund transfers between the various locations where such accounts are held. We have no assurance, because of the lack of controls, that the discrepancies were not larger than this amount.

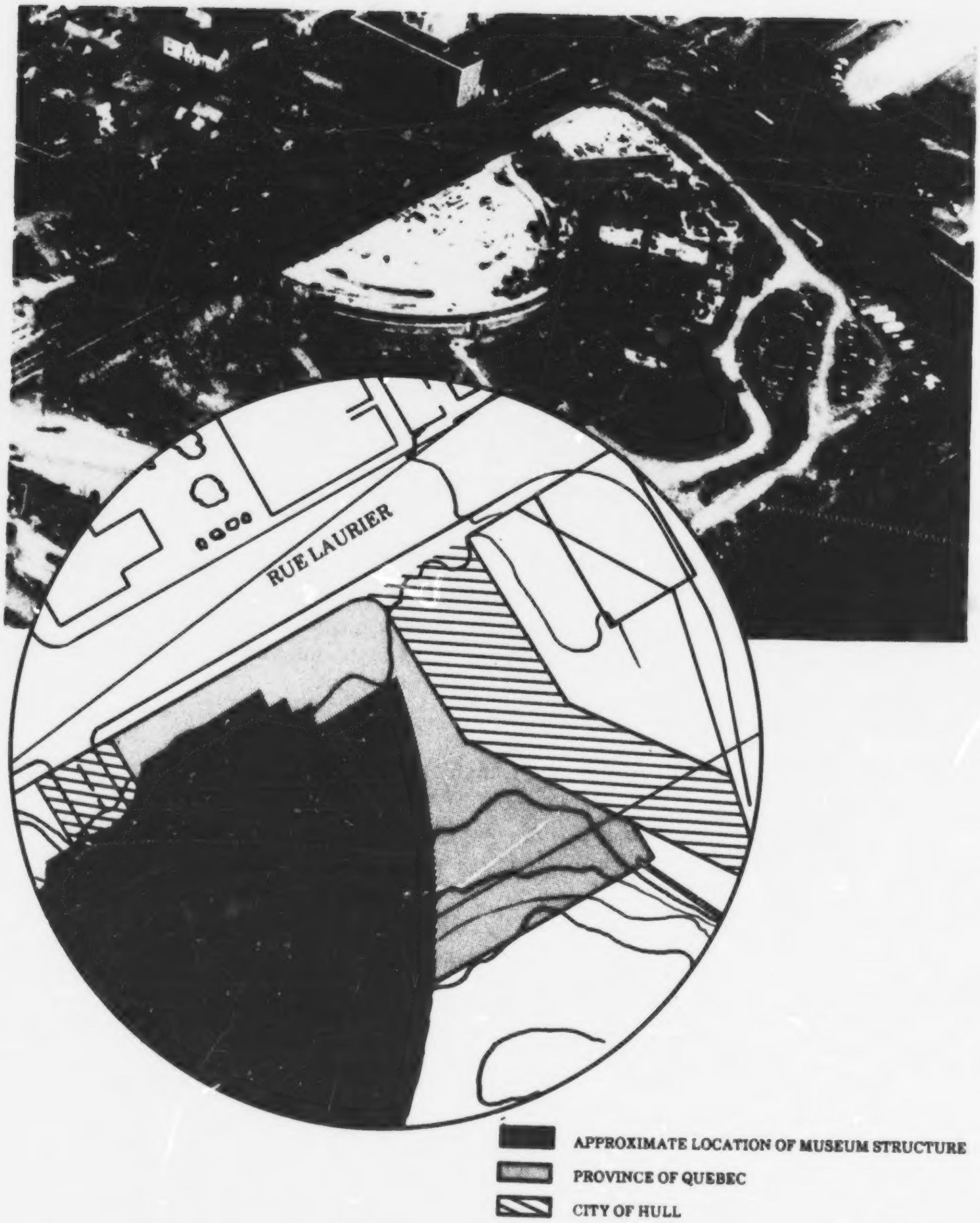
3.27 On the death of a veteran for whom an account has been maintained, the Pension Act calls for a review of the account before the funds can be disbursed. The Canadian Pension Commission has not been consistently performing this review, and there were numerous accounts dating back to 1980 on which no action had been taken. A number of these accounts had individual balances in excess of $100,000.

3.28 Some veterans living outside Canada receive treatment in foreign health care institutions at the expense of the Department of Veterans Affairs. In the case of some of those for whom accounts were being administered by the Department, amounts totalling $264,000 had been incorrectly charged against the veterans' trust accounts rather than departmental appropriations.

3.29 Veterans Affairs has taken action to credit individual veterans' trust accounts where it has been able to identify amounts due to these veterans. While this action is commendable, controls over veterans' trust accounts that would ensure that such errors do not recur had not yet been instituted.

Observations on Crown Corporations

3.30 Our Office is the appointed auditor of 44 Crown corporations, as required by the Financial Administration Act or the individual act incorporating the specific corporation. Details on significant reservations and other matters contained in reports to these corporations issued during the year are set out below. Most of these matters have already been raised in the public forum, but they are repeated here for emphasis, and for consideration by Parliament.


RUE LAURIER
■ APPROXIMATE LOCATION OF MUSEUM STRUCTURE
▒ PROVINCE OF QUEBEC
▨ CITY OF HULL

The above photograph shows construction in progress on parts of the site of the new National Museum of Man that are not owned by the federal government (see paragraph 3.31). These can be seen on the portion of the site plan shown in the insert.

3.31 Canada Museums Construction Corporation Inc. - Unresolved Funding Requirement for the Construction of Two Museums

The Corporation was incorporated in 1982 with a mandate to recommend sites, architects and designs for the new National Gallery of Canada and the National Museum of Man in the National Capital Region, and to manage their construction. The projects are to be completed by 1987. In its planning documents, the Corporation estimated funding shortages of approximately $53 million. To date, Treasury Board has not accepted the Corporation's proposal regarding the additional funding needed for the two projects. In our opinion, it is unlikely that the two museums can be made fully operational in accordance with the building concepts and schedules as originally approved by Cabinet without resolution of the funding requirement. We also note that the Corporation did not include the cost of the sites in any of its funding proposals. Although construction is in progress, no final agreement or permission to occupy has been obtained for the National Museum of Man site. In addition, some portions of the sites for the two museums are not federally owned, and title to them has not been settled.

3.32 In September 1981, the Cabinet allocated total funding of $185 million for the two projects. This ceiling has now been revised to $191.45 million ($98.15 million for the National Gallery of Canada and $93.30 million for the National Museum of Man). The Corporation presented to Cabinet a breakdown of the project expenditures into three broad elements: construction costs, fees, and corporate administration.

3.33 In November 1983, the Cabinet Committee on Priorities and Planning accepted the recommendations of the Corporation and approved the construction sites, architects, building concepts and long-term forecasts of the building schedules and funding requirements for each museum. However, the Corporation's funding proposals did not include the cost of the sites in any of the funding proposals. According to independent appraisals obtained by the National Capital Commission in 1983, the market values of these sites were approximately $14.1 million for the National Gallery and $5.4 million for the Museum of Man. In our opinion, the cost of the sites should have been stated to present fairly the total project cost.

3.34 In May 1984, the Corporation, subsequent to obtaining Cabinet approval, announced plans for a drive to raise funds from the private sector with a target of $24 million to cover funding shortages for the construction of the two museums. However, this plan did not proceed beyond seeking advice and collecting information.

3.35 As requested in December 1984 by the Deputy Minister of Communications and the Secretary to the Treasury Board, a task force was convened by the Minister of Communications to review costs and develop options for cost reduction. In its report in February 1985, the task force set out various options for reducing the costs of the projects. It concluded that further work would be required to identify a reasonable target figure for private sector fund raising.

3.36 In a proposal submitted to Treasury Board in March 1985, the Corporation estimated funding shortages of approximately $36 million (including $8.15 million for items not previously included in the scope of the project) to 31 March 1987, and indicated that new funding would be required for this amount to complete the two projects. A further $17.1 million was also estimated as a future requirement for construction contingencies, landscaping and furnishings for public areas, making a total funding shortfall of $53 million excluding accommodation planning, fit-ups and possible site costs. To date, Treasury Board has not accepted these proposals.

3.37 In April 1985, the Minister of Communications directed the Corporation to adopt certain recommendations of the task force report and authorized an additional amount of $14.1 million, subject to Treasury Board approval.

3.38 In May 1985, the Minister of Public Works, subsequent to being designated as the appropriate Minister with respect to the Corporation, directed that an immediate review of the budgets and construction schedules for the two projects be undertaken.

3.39 Although major portions of the sites for the two museums are federally owned, with the legal title to the lands currently belonging to the National Capital Commission, we note that certain parts of both sites are owned by other levels of government. Negotiations between the Commission and the parties concerned to resolve the issue of legal title to parts of the Museum of Man site that are not federally owned have been going on since 1973. In December 1983, an interim agreement was reached between the Commission and the Corporation for geological surveys, excavation and bringing in the required public utilities. Although construction is in progress, no final agreement has been reached with the Commission or the other owners.

3.40 On 14 June 1985, the Chairman and Chief Executive Officer of the Corporation requested the Auditor General to perform a value-for-money audit to assess the management of the Corporation's operations and affairs up to 16 May 1985. The results of the audit will be reported to the Corporation in the fall of 1985.

3.41 Canadian Dairy Commission - $10 Million Overstatement of Assets

> Funds provided by Parliament for the payment of subsidies to producers have been redirected by the Canadian Dairy Commission to finance its export marketing operations, normally financed by levies against milk producers. This was done by the Commission as part of its response to the withdrawal of British Columbia from the national milk marketing program from August 1982 to October 1984. The Agriculture Stabilization Board disagreed with the Commission's use of funds and did not acknowledge liability for $10 million claimed by the Commission as of 31 July 1984.

3.42 The Canadian Dairy Commission normally makes income subsidy payments to individual Canadian dairy producers out of funds provided by Parliament and transferred by the Agricultural Stabilization Board to the Commission. The Commission also undertakes export marketing operations, normally financed by producer levies, to dispose of dairy products surplus to Canadian requirements.

3.43 In 1982, the Province of British Columbia withdrew from the national milk marketing program. The Commission did not pay subsidies to producers in that province and, with the exception of $3.2 million, did not receive levies from them for the period of non-participation. However, the Commission continued to draw subsidy funds through the Board equivalent to levies that would have been received from British Columbia had that province remained in the program. Subsidy funds drawn and converted for the 1983 dairy year amounted to $8.5 million, $10 million for 1984, and $2.56 million for the dairy year ending in 1985. In total, $21.1 million of subsidy funds otherwise payable to British Columbia producers has been used by the Commission to finance export marketing operations for the benefit of milk producers in Canada.

3.44 This use of funds by the Commission was subsequently approved by the Treasury Board in March 1985 in the extraordinary circumstances of British Columbia's withdrawal from and re-entry into the program. This subsequent approval, however, does not alter the fact that the funds have been used for a purpose other than that authorized by Parliament in the Appropriations Acts and as set out in the Estimates.

3.45 The Agriculture Stabilization Board confirmed to us during our audit of the Commission's financial statements for the year ended 31 July 1984 that it did not agree with the Commission's account receivable of $10 million since funds had been provided for payment to producers participating in the national milk marketing program and not for the purpose of financing the marketing of surplus dairy products. Our audit opinion on the financial statements of the Commission was qualified because of the overstatement of assets. If this amount had not been reported as an asset, the deficiency between cost of marketing operations and financing and the deficit at 31 July 1984 would each have increased by $10 million.

3.46 Canadian Saltfish Corporation - Sales of Frozen Fish Products and Advance Payments to Frozen Fish Producers Beyond the Corporation's Statutory Powers

> During the year ended 31 March 1985, the Canadian Saltfish Corporation sold $26.0 million of frozen fish products and made advance payments to frozen fish producers; in our opinion, both of these were beyond its statutory powers. This is the third year we have qualified our audit report with respect to the Corporation operating beyond its statutory powers.

3.47 The Canadian Saltfish Corporation was established by the Saltfish Act in 1970 to improve the earnings of the primary producers of cured codfish. The Corporation's operations are restricted by its Act to trading and marketing cured codfish and its by-products in the Province of Newfoundland and the Lower North Shore of Quebec; it is required to buy all cured codfish of an acceptable standard of quality offered for sale by the fishermen.

Exhibit 3.1

CANADIAN SALTFISH CORPORATION

	1983	1984	1985
		(Millions of dollars)	
Total sales activity	$ 70.4	$ 50.9	$ 63.9
Frozen products activity	$ 23.1	$ 14.8	$ 26.0
Percentage	33%	29%	41%

3.48 During the year ended 31 March 1985, the Corporation marketed frozen fish products under contracts with a number of producer companies. In accordance with certain of these contracts, the Corporation advanced up to 70 per cent of the projected market value of the fish products to the producer companies, with the balance payable determined by the ultimate selling price and any related expenses incurred.

3.49 In our opinion, because the Act specifies the Corporation's rights only in relation to cured codfish, sales of frozen fish products during the year and advance payments to frozen fish producers were not within the powers of the Corporation under the Saltfish Act. We have brought this issue to the attention of management by way of qualification in the auditor's report. This situation was also brought to the attention of management in the 1984 and 1983 auditor's reports.

Observations on Departmental Operations

3.50 Under section 7 of the Auditor General Act, the Auditor General is required to call attention in his Report to anything resulting from his examination that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons. In accordance with these reporting requirements, we believe the following matters should be brought to the attention of the House.

3.51 Department of External Affairs - Purchase of Memberships in the Aberdeen Marina Club, Hong Kong

> To provide recreational facilities for employees and their families, the Department purchased 34 individual transferable debentures entitling the holders to memberships in the Aberdeen Marina Club in Hong Kong. The initial cost was $773,500, and annual membership fees, at the time of our audit, amounted to $27,000. The Department did not adequately analyse the need for the recreational facilities or investigate less costly alternatives. Furthermore, the Department exceeded its authority by not obtaining Treasury Board approval of the purchase and contravened government accounting practices by paying the initiation fees in three installments covering three fiscal years.

External Affairs purchased memberships in the Aberdeen Marina Club, Hong Kong for its 34 Canada-based staff at a cost of $773,500 (see paragraph 3.51).

3.52 As a result of the Royal Commission on Conditions of Foreign Service, the Department established a Recreational Hardship Support Program, approved by Treasury Board in April 1983. This program is designed to enhance recreational opportunities for employees and their dependants at specified hardship posts where access to the most basic facilities commonly available to all Canadians is non-existent or restricted. The total program is limited to $4,524,000 for the first four years plus $750,000 each year thereafter.

3.53 External Affairs uses a point system (100 point maximum) in evaluating the relative hardship of posts abroad. A rating between 25 and 40 is indicative of serious hardships, where at least one of the two main recreational outlets - opportunities for active sports or for social entertainment and recreation - is normally quite limited and there are attendant access difficulties. Posts with ratings of less than 25 points are deemed to be experiencing only moderate to slight recreational hardships. Hong Kong was rated at the bottom of the serious hardships category (25 points). It ranked 46th of 64 posts identified as having recreational hardship.

3.54 The Post proposed that club memberships be provided for all Canada-based staff, on the basis that active recreational facilities were not available and that overcrowding made it desirable to offer employees an escape from the tensions of life in that city. Less costly options were dismissed as not providing the best solution; however, in analysing the alternatives, neither the relative cost nor the projected use that would be made of such facilities was considered. Furthermore, the Post did not indicate how a recreational club in the city would provide an escape from the tensions of the city.

3.55 A Management Review report, prepared prior to the decision to purchase, recommended a more careful analysis to justify the large commitment of public funds. It pointed out that 7 of the 33 staff quarters were located in compounds that already had recreational facilities, 10 of the Canada-based staff had memberships in other clubs provided to meet operational needs, and all Canada-based staff had access to the swimming pool at the official residence. Less costly alternatives include renting a recreational condominium for $1,500 per month and purchasing memberships in fitness facilities for $600 each. Finally, a new chancery was being proposed that could include recreational facilities, and the Post had identified a program to upgrade staff quarters to include recreational facilities.

3.56 The Department had obtained Treasury Board approval for the overall Recreational Hardship Support Program. One of the conditions of the approval was that specific post initiatives be discussed with Treasury Board Secretariat. Hong Kong was identified as a post that would make use of club memberships. The cost was estimated to be somewhat less than $100,000. Given the discrepancy between the initial estimate and the final cost, we believe that Treasury Board Secretariat should have been informed and its advice sought prior to approval. In our opinion, the amount spent in Hong Kong exceeded the intent of the Recreational Hardship Support Program. It appears inconsistent with the program intent to spend 20 per cent of the first four years' budget on a marginally qualified hardship post.

3.57 Department of Finance - Income Tax Remission Order Confers After-tax Benefit of $1 Billion

> On 5 February 1985, an income tax remission order was granted to Hudson's Bay Oil and Gas Company Limited, enabling it to deduct, for income tax purposes, financing costs that its parent incurred in acquiring it. The order may provide the company with an after-tax benefit of up to $1 billion, and permitted the use of a method of transferring losses for tax purposes that in May 1985 had only been proposed to Parliament.

3.58 In July 1984, the government announced its intention to provide Hudson's Bay Oil and Gas Company Limited, a subsidiary of Dome Petroleum Limited, with an order remitting income taxes pursuant to section 17 of the Financial Administration Act. The remission order was granted on 5 February 1985.

3.59 The order enables Hudson's Bay Oil and Gas to deduct, for income tax purposes, the financing costs incurred by Dome in acquiring it. It is applicable to Hudson's Bay Oil and Gas's taxation years up to and including 1990, and the tax revenue that may ultimately be forgiven is only limited by the tax effect on the income to be offset by the financing costs.

3.60 The Department of Finance has advised us that if the remission were not provided, and as a consequence Dome were to be forced into bankruptcy, the federal government would suffer a substantial revenue loss. The government was also concerned that a failure of Dome could have a serious adverse effect on the Alberta economy. In these circumstances, the Department believes it cannot accurately determine costs or prepare meaningful cost figures.

3.61 We estimate that the revenue the Crown will forego may amount to $1 billion, assuming that Dome survives and that Hudson's Bay Oil and Gas maintains its 1982 and 1983 levels of taxable income before the deduction of the financing costs.

3.62 Remission orders are generally granted to provide relief. Although the remission order is in compliance with the law, we are concerned that a $1 billion after-tax benefit may ultimately be conferred on a particular taxpayer, without providing Parliament with the opportunity to review the matter.

3.63 The remission order also permitted Dome to make use of a method of allowing losses for tax purposes to be transferred within an ownership group before this method had been approved by Parliament. In May 1985, it was proposed as part of the Budget.

3.64 The remission order has significant cost implications and involves the application of a method of transferring losses for tax purposes that is currently before Parliament. In our opinion, Parliament's consent should have been sought.

3.65 Department of Indian Affairs and Northern Development - Potential Liability Resulting from Litigation Against the Crown

> A recent Supreme Court of Canada decision has clarified the fiduciary responsibility of the Department in respect to surrendered Indian lands. Litigation now pending against the Department could result in substantial liability.

3.66 The Reserves and Trusts Branch of the Department of Indian Affairs and Northern Development is responsible for administering Canada's statutory and treaty obligations to Indians and Inuit. A recent Supreme Court of Canada decision has clarified the fiduciary responsibility of the Department regarding surrendered Indian lands.

3.67 This decision could give rise to more litigation based on alleged irregularities in the past administration of surrendered Indian lands. Although this case did not deal with estates, membership, natural resources and trust funds, the same reasoning could be extended to them. It is also expected to revive many historical claims that were held in abeyance pending the Supreme Court of Canada decision.

3.68 A departmental report dated 30 June 1985 lists approximately 102 court cases now pending against the Crown. About 25 per cent of the Statements of Claim, on which the report is based, claim specific monetary amounts that could exceed $1 billion. Although the other 75 per cent do not stipulate amounts, the total amount of the liability could be substantial if the litigation is successful. The Department is now studying the full implications of the Supreme Court decision.

3.69 Department of Indian Affairs and Northern Development - Follow-up of the Administration of the Indian Economic Development Fund

> The purpose of the Indian Economic Development Fund is to provide loan guarantees and direct loans to fund the development of viable Indian business enterprises. Direct loans under the Indian Economic Development Fund have an authorized capital lending ceiling of $70 million. We reviewed the progress made to improve the management of the Fund.

3.70 The management of the Indian Economic Development Fund was a subject of criticism in our 1978 Report (paragraph 21.5) and our 1980 Report (paragraph 6.115). The Sixth Report of the Standing Committee on Public Accounts, tabled in the House of Commons on 23 June 1981, expressed concern that a number of weaknesses had not been adequately addressed and recommended that the Department immediately define and implement the goals of the Indian Economic Development Fund.

3.71 In its response, the Department stated that the definition and implementation of the goals would be blended in new policies, standards and procedures and would coincide with the implementation of the Loan Accounting System by April 1982.

3.72 Since then, the Department has developed and implemented the Loan Improvement Process. This has resulted in improved procedures and controls and has significantly enhanced the quality of Fund administration. Despite ongoing efforts, the Loan Accounting System is still not in place.

3.73 According to departmental estimates, $29.2 million or 63 per cent of the outstanding balances lent under the Fund as of 31 March 1985 was doubtful or uncollectible. In addition, $17.7 million in interest receivable on these loans was also doubtful or uncollectible. Most of the uncollectible and doubtful outstanding balances were loans made before our previous notes. In a continuing effort to improve the Fund's administration, the Department has set aside 15 person-years under a two-year timetable for following up and collecting these long outstanding loans.

3.74 Departments of National Revenue-Taxation and Finance - Income Tax Implications of Petro-Canada's Acquisition of Petrofina

Parliament, subject to approval by the Government, provided Petro-Canada with the funds to acquire Petrofina. The acquisition, however, was executed in a complex series of interrelated transactions involving two Petro-Canada subsidiaries and a partnership beginning with Petrofina exchanging its assets for shares of a Petro-Canada subsidiary. The assets were then transferred to a Petro-Canada-owned partnership; immediately after, another Petro-Canada subsidiary purchased 51 per cent of the Petrofina shares. Purchase of the balance of the shares took place over a 25-month period.

The original exchange ensured that the sale by Petrofina's non-resident parent would be exempted from Canadian income taxes. The transfer of assets to the partnership may have enabled Petro-Canada to reap tax benefits on winding up the partnership. The 25-month purchase was structured to allow a term purchase while eliminating Canadian withholding tax on the interest paid. It may also have exempted Petrofina's parent from Belgian income taxes.

Acquisition Structure

3.75 Parliament, subject to approval by the Government, authorized the payment of moneys from the Canadian Ownership Fund to Petro-Canada for the purchase of shares and acquisition of property from Petrofina Canada Inc. The acquisition, however, was made by a wholly-owned subsidiary of Petro-Canada, Petro-Canada Explorations Inc. and its wholly-owned subsidiary, Petro-Canada Petroleum Inc., under the terms of a share-offer agreement supplemented by an asset-offer agreement.

3.76 Under these agreements, Petrofina would transfer its assets to Petro-Canada Petroleum in return for preferred shares. Petro-Canada Explorations would acquire at least 51 per cent of Petrofina shares initially, without any assurance that the remaining shares could be acquired. The initial share price was $120, and for subsequent purchases the price included adjustments for imputed interest and dividends paid.

Scope of Review

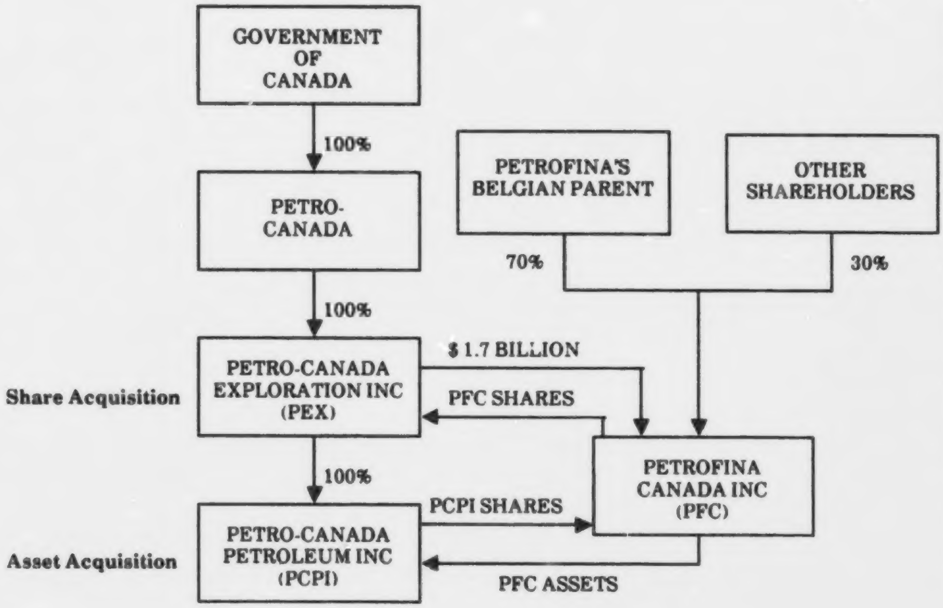
3.77 We looked at the income tax consequences of the acquisition, focusing on a series of key transactions: the transfer of assets from Petrofina to Petro-Canada; the creation of a partnership for taxation purposes; and the share purchase arrangement. We also considered the related advance income tax rulings issued by the Department of National Revenue-Taxation.

Transfer of Assets

3.78 Because Petro-Canada Explorations had no assurance that it would acquire more than 51 per cent of Petrofina's common shares, the exchange of assets for preferred shares ensured that the future growth of Petrofina would accrue to Petro-Canada Petroleum. It also converted Petrofina's immovable property to movable property. The

Exhibit 3.2

PETRO-CANADA'S ACQUISITION OF PETROFINA CANADA INC.


GOVERNMENT OF CANADA
100%
PETRO-CANADA
100%
PETROFINA'S BELGIAN PARENT
OTHER SHAREHOLDERS
70%
30%
$ 1.7 BILLION
Share Acquisition
PETRO-CANADA EXPLORATION INC (PEX)
PFC SHARES
100%
PETROFINA CANADA INC (PFC)
PCPI SHARES
Asset Acquisition
PETRO-CANADA PETROLEUM INC (PCPI)
PFC ASSETS

Asset Acquisition

PFC transferred its assets to PCPI in exchange for preferred shares of PCPI, and converted its immovable property to movable property. Using tax-free rollover provisions of section 85 of the Income Tax Act, PCPI takes over the assets at PFC's tax cost base.

Share Acquisition

PEX initially acquired 51 per cent of PFC shares. The balance was acquired over a 25-month period, with the purchase price adjusted for imputed interest. The sale of PFC shares by its Belgian parent is exempted from Canadian tax since the PCPI preferred shares are movable property. The imputed interest formed part of the proceeds of disposition and was not subject to Canadian withholding tax. Also, the term purchase arrangement may have exempted PFC's Belgian parent from Belgian tax.

conversion followed by the share purchase enabled National Revenue-Taxation to rule that Petrofina's Belgian parent would be exempted from Canadian tax on the sale of its Petrofina shares in accordance with the Canada-Belgium Income Tax Convention.

Partnership Arrangement

3.79 From the information made available to us relating to the partnership arrangement and its background, we made the observations that follow.

3.80 Ministers of the Crown were advised that the transfer of Petrofina's assets would involve a tax-free rollover that is allowed by the Income Tax Act. The parties agreed to comply with the existing provision in the Act that enabled Petrofina to defer tax on the asset transfer to Petro-Canada Petroleum, which inherited the potential tax liability by assuming Petrofina's tax value of the assets.

3.81 However, the Department of Finance was advised that the takeover was being structured in such a way that the tax basis of the underlying assets of Petrofina could be increased or "bumped up" to reflect the price paid for the shares, which was very much higher than their book value. This would result in eliminating some of the tax liability previously inherited from Petrofina. In the absence of this structuring, Petro-Canada would not be able to recognize for tax purposes the money expended for the assets it was acquiring from Petrofina. In our opinion, all the relevant information was not provided to ministers.

3.82 Ernst & Whinney, Chartered Accountants, in their review of the acquisition at the agreed purchase price of $120 per share, stated that it was necessary for Petro-Canada to increase the tax basis of the underlying assets of Petrofina for the acquisition to be economically feasible. They outlined in detail a method to effect an asset "bump-up", which required the formation of a partnership. The share-offer also suggested that, for taxation purposes, assets might be transferred to a partnership prior to the share purchase.

3.83 However, we reviewed the income tax legislation in effect in May 1981 when control of Petrofina Canada was acquired and determined that forming a partnership would not have enabled Petro-Canada to recognize for tax purposes the cost paid for the assets, which was approximately $1 billion more than their book value. For Petro-Canada to have established a cost for tax purposes equal to the price paid for the assets, it would have had to acquire the assets through a straightforward purchase. Had that been done, Petrofina would have become liable for Canadian income taxes, which we estimate would have been between $250 million and $500 million.

3.84 Income tax amendments proposed in April 1983 and enacted in January 1984 changed the situation. The use of tax-free rollover and the formation of a partnership in 1981, followed by corporate and partnership liquidations, would enable Petro-Canada to "bump-up" the tax basis of the assets by approximately $500 million. We asked Petro-Canada if this was done or may still be done. At 20 September 1985, we had not received a reply.

Exhibit 3.3

INCOME TAX IMPLICATIONS OF THE ACQUISITION OF PETROFINA CANADA INC.

	TRANSACTION	INCOME TAX IMPLICATIONS
1.	**TRANSFER OF ASSETS FROM PFC TO PCPI** PFC exchanges its assets for preferred shares of PCPI, with parties agreeing that for income tax purposes the exchange will take place using tax-free rollover provisions of section 85 of the Income Tax Act.	Under section 85, for income tax purposes PCPI takes over PFC assets at PFC's tax cost base. PFC's immovable property converted to movable property.
2.	**PARTNERSHIP ARRANGEMENT** Petro-Canada causes partnership to be formed and PCPI transfers assets acquired from PFC to partnership.	At date partnership formed there is no tax advantage to the transaction. January 1984 amendments to the Income Tax Act may enable assets acquired from PFC to be increased for tax purposes to an amount greater than their previous tax cost, negating section 85 provisions.
3.	**SHARE PURCHASE** PEX initially acquires 51 per cent of PFC's shares, balance acquired over next 25-months with purchase price adjusted for imputed interest.	PCPI preferred shares received by PFC in exchange are movable property and sale of PFC shares by its Belgian parent is exempted from Canadian tax. Imputed interest is part of the proceeds of disposition of the shares and is not subject to Canadian withholding tax. Also the term purchase arrangement may have exempted PFC's Belgian parent from Belgian tax.

3.85 In our opinion, Parliament should have been advised that the retroactive effect of certain amendments to the Income Tax Act may have enabled Petro-Canada to reap substantial tax benefits not available at the date Petrofina was acquired.

Share Purchase

3.86 We were advised by the Department of Finance that the purchase of only 51 per cent of the shares in the initial transaction with the balance of the shares being purchased over a 25-month period, may have exempted Petrofina's parent from income taxes in Belgium. This arrangement also resulted in eliminating Canadian withholding tax on the imputed interest adjustment of subsequent share purchases.

3.87 Under Canadian tax laws, the sale of Petrofina shares by its Belgian parent is subject to tax in Canada. However, under the Canada-Belgium Income Tax Convention, gains are exempted from Canadian tax unless the property consists principally of immovable property as defined in the Convention.

3.88 Because there was no pre-acquisition asset valuation available to National Revenue-Taxation and the Department of Finance, it is not clear whether the property of Petrofina consisted principally of immovable property according to the Convention. Technically, however, Petrofina's transfer of its assets to Petro-Canada Petroleum in return for preferred shares eliminated this question because the shares were clearly movable property.

3.89 National Revenue-Taxation ruled that the gain realized by Petrofina's parent on the sale of its shares would be exempted from Canadian tax under the Convention. It also ruled that the purchase price adjustments for imputed interest that would accrue on the shares to be sold over the 25-month period would form part of the proceeds of disposition. In effect, the imputed interest was a capital receipt and therefore not subject to Canadian withholding tax.

3.90 We estimate that if the gain had been subject to tax in Canada, Petrofina's Belgian parent's tax liability would have been $200 million.

Advance Income Tax Ruling

3.91 Advance income tax rulings are an administrative service that National Revenue-Taxation has no legal requirement to provide. Generally, the Department attempts to rule on a transaction that has a bone fide business purpose, which may include tax planning. The Department's guidelines state that requests for rulings may be refused where this is not the case or where transactions appear to be designed primarily for improper avoidance, reduction or deferral of tax. They may also be refused where there are reasonable grounds for believing that they will be followed by other transactions that would ultimately result in the improper avoidance, reduction or deferral of tax. An advance ruling is regarded as binding upon the Department.

3.92 From our review of the ruling exempting Petrofina's Belgian parent from Canadian tax on the sale of its shares, we made the observations that follow.

3.93 The Department of Finance believed that a favourable advance ruling could be granted on the basis that Petrofina's assets were such that they did not consist principally of immovable property as defined in the Convention, and that therefore the gain would have been exempted from Canadian tax. The asset transfer could therefore not be viewed as a transaction designed to gain Convention exemption, and was not entered into primarily for the avoidance of tax. A ruling on this basis would not compromise National Revenue-Taxation's ability to refuse to rule favourably in other situations.

3.94 To determine whether exemption from the Convention would have been available to Petrofina's parent without the asset transfer taking place, in our opinion, it would be necessary to know the purchase price allocated to the assets in a pre-acquisition asset valuation. The absence of a pre-acquisition asset valuation would therefore preclude a ruling on this basis.

3.95 National Revenue-Taxation's ruling was not, however, made on this basis. The Department concluded that the asset transfer was within the framework of the law and that it resulted in converting immovable property to movable property. Any gain realized on the subsequent share sale was exempted from Canadian tax under the Convention, because, at the time of sale, the assets of Petrofina did not consist principally of immovable property as defined in the Convention. The Department concluded that it was obliged to rule favourably, and that the question of whether the transactions were considered to be designed primarily for improper avoidance, reduction or deferral of tax, did not arise.

3.96 At the 1979 Canadian Tax Foundation Conference, National Revenue-Taxation stated its position on a series of transactions which in our opinion have similarities to those under discussion. Although the proposed transactions were legal, and in July 1979 a favourable ruling had been given, National Revenue-Taxation stated at the Conference that it viewed them as being structured to avoid tax, and would not rule in favour of them. The Department has advised us that the thrust of the statement was a message that, in future, such a ruling would not be given, and that the law would be changed. The law was subsequently changed.

3.97 Because the criteria for issuing a favourable ruling are not limited to whether a particular transaction is within the confines of the Income Tax Act and because National Revenue-Taxation files do not contain the principles that rulings are based on, we were unable to determine whether, in this case, the parties received preferential treatment.

3.98 The basis on which the ruling was issued has, in our opinion, implications beyond the particular transaction. It accepted the position that, by a very simple transaction, immovable property can be converted to movable property. As a result, under the Canada-Belgium Income Tax Convention and other similar conventions, National Revenue-Taxation may be unable to tax gains that Parliament intended to tax. Because of this, we would have expected the Department to have obtained a legal opinion from the

Department of Justice confirming that the letter of the law was not contravened. The Department did not do so.

3.99 We would also expect the Department to have advised the Minister of National Revenue that a ruling was being issued on transactions that a Crown corporation was party to, and that its basis could have a significant impact on international conventions and the revenue of Canada. The Department did not advise the Minister.

Cost Implications

3.100 We believe the Government had the responsibility to inform Parliament of the total cost implications of this acquisition, including the possibility that the tax system might have been used or may be used to provide funds for the purchase of Petrofina.

3.101 We also believe that the tax system contributed funds for the purchase of Petrofina. The estimated $200 million in Canadian taxes "foregone" on the share sale, and the estimated total of $250 million in tax reduction related to the "bump-up" to Petro-Canada indicate the magnitude of the tax system's contribution.

3.102 Department of Public Works - Indirect Subsidy for Grants in Lieu of Taxes

> The payment of grants in lieu of taxes by the Department of Public Works for properties administered and controlled, or occupied by Canada Post Corporation without recovery or disclosure requires clarification.

3.103 In October 1981 The Canada Post Corporation took over administration and control of certain government-owned properties from the Department of Public Works. In addition, Canada Post occupies space in properties administered by Public Works. These properties have been managed by Public Works under a property management agreement entered into in August 1982. Under the terms of this agreement, Public Works has recovered operating and maintenance expenses other than grants in lieu of taxes relating to these properties from Canada Post.

3.104 The Minister of Public Works is authorized to make payments of grants in lieu of taxes on behalf of all other government departments and agencies listed in Schedule A of the Financial Administration Act and for certain properties of Crown corporations specified in Schedule I of the Municipal Grants Act, 1980. Crown corporations listed in Schedules III and IV of that Act normally pay their grants in lieu of taxes.

3.105 Canada Post is listed in both Schedules I and III of the Municipal Grants Act. In accordance with the Act, grants in lieu of taxes for properties transferred to or occupied by Canada Post have been borne by Public Works. The Department advises us that Canada Post was added to Schedule I of that Act as an interim measure to allow Public Works to legalize grant payments on properties occupied by Canada Post while it was completing the identification of the properties occupied by Canada Post; this process has now been substantially completed.

3.106 In our opinion, grants in lieu of taxes are an integral part of the operating cost of the buildings transferred to or occupied by Canada Post. Based on Public Works records, we estimate that these grants amounted to approximately $72 million for the period from 16 October 1981 to 31 March 1985. In substance, the payment of these grants by Public Works under the Municipal Grants Act constitutes an indirect subsidy to the Corporation that is not currently disclosed to Parliament by Public Works.

3.107 Further, in our opinion, the conflict between the terms of the property management agreement that require the recovery of operating and maintenance costs and the listing of Canada Post Corporation in Schedule I of the Municipal Grants Act needs to be clarified and resolved so that the payments by Public Works can either be recovered or appropriately disclosed.

3.108 Treasury Board Secretariat - Government Programs Bear Share of Public Service Superannuation Costs of Crown Corporations and other Organizations

> The Government of Canada charges departmental programs an estimated amount of $34 million which pertains to Schedule C Crown corporations and other organizations that participate in the Public Service Superannuation Plan. This amount, which is included in the cost of departmental programs, is not separately disclosed in the Public Accounts of Canada and not reflected in the cost of operating these organizations.

3.109 The government provides pensions to former employees who have retired from departments, certain Crown corporations and other organizations that participate in the Public Service Superannuation Plan. Dependants are also included. The government's liability in respect of its employees and those of participating Crown corporations and other organizations is reflected in the Public Accounts of Canada.

3.110 Under the terms of the Supplementary Retirement Benefits Act, annuitants' basic pensions are indexed each year to reflect increases in the Consumer Price Index. The indexed portion of the pension benefits is charged to the Supplementary Retirement Benefit Account. However, the maximum charge to this account for any individual must not exceed the amount to the credit of that individual. When the indexed portion of the pension benefits exceeds the amount to the beneficiary's credit, the excess amount is treated as a budgetary expenditure of the Government of Canada and ultimately charged to departmental programs.

3.111 Since these Schedule C Crown corporations and other organizations are excluded from the Government as an accounting entity, according to the stated accounting policies of the Government of Canada, we recommend that the excess amount of $34 million currently charged to departmental programs be separately disclosed in the Public Accounts of Canada.

3.112 It is our understanding that the funding and financing issues of the Public Service Superannuation Plan are currently under review by the Government.

Report Under Section 11 of the Auditor General Act on our Continuing Review of the Oil Pricing and Compensation Programs

3.113 As directed by the Governor in Council, the Auditor General has undertaken a continuing enquiry into the administration of expenditures of the Oil Import Compensation Program, beginning with the 1973-74 fiscal year. From 1978 to 1982, the enquiry also included an audit of the Petroleum Compensation Revolving Fund. Since 1982, it has covered the administration of the revenues and expenditures of the Petroleum Compensation Accounting process, of which the Oil Import Compensation Program is now an element.

The tank volume of imported crude oil is being gauged on the vessel shown above by an independent surveyor, an inspector engaged by Energy, Mines and Resources, and an oil company representative.

3.114 Sections 65.11 to 65.19 of the Energy Administration Act provide authority for imposing a Petroleum Compensation Charge on domestic and foreign petroleum, including foreign petroleum products for processing, consumption, sale or other use in Canada. Proceeds from the Petroleum Compensation Charge are credited to Petroleum

Compensation Accounting. Effective 1 January 1984, a designated portion of the Oil Export Charge revenue, under section 77 of the Energy Administration Act, was also credited to Petroleum Compensation Accounting. Pursuant to regulations made under sections 72 and 75 of the Act, compensation or supplement is paid to importers of foreign crude oil; to producers of new conventional oil, special old oil and synthetic oil; to producers of oil-based petrochemical feed-stocks, farmers, fishermen, loggers and mine operators to offset the impact of Petroleum Compensation Charge increases; and to companies transferring crude oil from Montreal to eastern Canada or exchanging Canadian crude for foreign crude oil.

3.115 On 28 March 1985, the Minister of Energy, Mines and Resources announced that the Government of Canada and the major energy-producing provinces of Alberta, British Columbia and Saskatchewan had agreed to deregulate crude oil prices effective 1 June 1985. As part of this deregulation, the Petroleum Compensation Charge and Oil Export Charge will no longer be imposed. All compensation and supplements - New Oil Reference Price Supplements, Special Old Oil Price Supplements, Oil Import Compensation, Synthetic Crude oil Price Supplements, Domestic Transfers Compensation, the Petroleum Levy Offset, the Primary Industries Levy Offset, and the Crude Oil Exchange Compensation - have been eliminated as well, effective 1 June 1985.

Petroleum Compensation Accounting Transactions

3.116 The following is a summary of Petroleum Compensation Accounting for 1984-85, with comparative figures for 1983-84:

	1984-85	1983-84
	(millions of dollars)	
Revenues		
Petroleum Compensation Charge	$ 2,180	$ 1,748
Oil Export Charge	28	2
	2,208	1,750
Expenditures		
New Oil Reference Price Supplement	1,854	1,034
Oil Import Compensation	700	541
Synthetic Crude Oil Price Supplement	626	498
Special Old Oil Price Supplement	212	121
Domestic Transfers Compensation	42	38
Petroleum Levy Offset	17	-
Crude Oil Exchange Program	4	1
	3,455	2,233
Deficit	$ 1,247	$ 483

	1984-85	1983-84
	(millions of dollars)	
Provided for by:		
Statutory appropriations	$ 500	$ 500
Supplementary appropriations	841	0
	1,341	500
Less: Amount lapsed	94	17
	$ 1,247	$ 483

3.117 The cumulative deficit of Petroleum Compensation Accounting, from its inception on 1 January 1981 to 31 March 1985, is $1,634 million.

3.118 The increase in Petroleum Compensation Charge revenues from 1983-84 to 1984-85 was the result of an increased volume subject to the charge and an increase in the Petroleum Compensation Charge rate by $17.50/m^3 on 10 November 1984. The substantial increase in the Oil Export Charge from 1983-84 to 1984-85 represented receipts of this charge for 12 months in 1984-85 as compared to 1 month in 1983-84.

3.119 The rate of compensation or supplement applicable to the four major expenditure categories increased from 1983-84 to 1984-85 as a result of the increasing spread between international and Canadian oil prices. Although international crude oil prices, specified in U.S. dollars, declined during the second part of the fiscal year, the decreasing value of the Canadian dollar against the U.S. dollar more than offset this decrease, resulting in overall higher prices for international crude oil in Canada. Under the Oil Import Compensation and Synthetic Crude Oil Price Supplement Programs, increasing rates resulted in increased expenditures, although the volumes of oil for both programs were fairly stable over the two years. The volumes of oil subject to the New Oil Reference Price Program, however, increased significantly. This increase in volume, combined with increasing rates, resulted in increased expenditures.

3.120 Because new oil and special old oil after 1 July 1983 received the same rate of supplement, Alberta did not differentiate these two oil categories in its applications; thus, the payments in respect of special old oil produced in Alberta are included under New Oil Reference Price Program Expenditures. The crude oil volume eligible for the Special Old Oil Price Supplement decreased, but the increased supplement rate more than offset the impact of this decrease in volume and resulted in an overall increase in expenditures.

3.121 Compensation paid to the producers of oil-based petrochemical feed-stock has been charged to Petroleum Compensation Accounting. Compensation to the primary industries (fishermen, farmers, loggers and mine operators) is administered by Revenue Canada Customs and Excise. No claims were submitted by Revenue Canada during the year.

3.122 The slight increase in the level of expenditures under the Domestic Transfers Compensation Program was the result of increased movement of crude oil. The substantial increase in expenditures for the Crude Oil Exchange Compensation Program, however, was the result of a significant increase in the crude volume exchanged, and some crude exchanges made in 1983-84 were settled in 1984-85.

Audit Scope and Conclusion

3.123 We have examined the revenue and expenditure transactions of the Petroleum Compensation Accounting process, including compliance with Part III.1 and Part IV of the Energy Administration Act, and regulations made by the Governor in Council pursuant to the Act for the year ended 31 March 1985. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances, except as explained in the following section on program administration audits.

3.124 In our opinion, except for any significant differences that may be identified as a result of subsequent program administration audits, revenue and expenditure transactions of the Petroleum Compensation Accounting process for the year ended 31 March 1985 have been properly processed within the accounts of Canada and these transactions have, in all significant respects, been in accordance with the authorities specified, applied on a basis consistent with that of the preceding year.

Audit Observations

3.125 **Program administration audits.** Audits of revenue from the Petroleum Compensation Charge are performed by staff of the Department of National Revenue - Customs and Excise and those of the designated portion of the Oil Export Charge by the National Energy Board.

3.126 The New Oil Reference Price and Special Old Oil Price Supplement Programs are administered in co-operation with the governments of the producing provinces, in accordance with memoranda of agreement. The Department of Energy, Mines and Resources has access to provincial records for the purpose of audit, except in Alberta, where the Department does not audit directly, but relies on an audit by the Auditor General of Alberta. Staff from the Department of Energy, Mines and Resources have completed audits in respect of all producing provinces, except Alberta and Ontario, up to 30 November 1984. For Ontario, departmental staff have completed an audit up to 30 June 1983. The most recent audit report issued by the Auditor General of Alberta covers the year ended 31 December 1983.

3.127 That report cites two areas in which Alberta has not complied with the Memorandum of Agreement with Canada. Federal and provincial government officials are currently estimating the quantitative impact of this situation and will together agree on what action, if any, is required for its resolution. Initial federal government estimates indicate that the quantitative impact may not be significant in relation to the total expenditures under the New Oil Reference Price and Special Old Oil Price Supplement Programs.

3.128 Audits of companies that have received payments under the remaining compensation programs are performed either by independent auditors on behalf of the Department of Energy, Mines and Resources or by departmental staff. Audits relating to payments made in 1983-84 are partially complete; audits of payments made in 1984-85 have not yet begun. In view of the fact that the program would terminate on 1 June 1985, the Department of Energy, Mines and Resources elected to delay further audit activity until payments in respect of the period to 31 May 1985 could be completed. After that time, audits will be done for all payment periods to 31 May 1985 that have not been examined. It is expected that this approach will allow for all remaining audits to be performed in the most cost-effective manner.

3.129 At 30 June 1985, audits covering $310 million of the $3,455 million paid in 1984-85 (9 per cent) and $1,444 million of the $2,233 paid in 1983-84 (65 per cent) have been completed. In respect of particular programs, the proportion of payments audited ranges from 0 to 15 per cent for 1984-85 and 0 to 80 per cent for 1983-84, with more of the audit activity concentrated in programs having higher expenditures.

3.130 **Unpaid levies.** As of 31 March 1985, a total of $45.2 million in unpaid levies was owed to the Crown. As of 31 July 1985, this had increased to $76.9 million, and agreement had been reached with two levy payers to pay outstanding balances amounting to $23.2 million over the next seven years.

IMPAC Evaluation Study

3.131 During the Public Accounts Committee hearings on our 1981 Report chapter on the government initiative for improved management practices and controls (IMPAC) program, the Comptroller General announced that his Office would conduct a formal evaluation of the program in 1984.

3.132 The evaluation process was begun in the spring of 1984, and the program evaluation report was submitted to the Comptroller General in August 1985. An evaluation Steering Committee, made up of senior government officials, including one from the Office of the Comptroller General, was appointed to manage the evaluation process. The evaluation was conducted by a consulting firm.

3.133 The evaluation consisted of an analysis of the Office of the Comptroller General's data base on IMPAC projects and interviews with a sample of departmental and central agency managers.

3.134 Because the report has only recently been made available, we have not had time to audit the study for this year's annual Report. However, the work will be completed in time for Public Accounts Committee hearings early in the new year.

PUBLIC PENSION MANAGEMENT

PUBLIC PENSION MANAGEMENT

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PUBLIC PENSION MANAGEMENT

The Federal Role in the Canadian Retirement Income System

4.1 Canada's retirement income system has three main components. They are government-sponsored public pension programs which provide a basic protection for all Canadians, employer-sponsored plans, and individual plans and other forms of savings. Jurisdiction over pensions is shared by the federal and provincial governments.

4.2 The federal government plays an important role in all aspects of the retirement income system in Canada. It provides a basic retirement income to older Canadians through Old Age Security benefits, as well as tax assistance (such as Registered Retirement Savings Plan deductions) to help Canadians save for their retirement. It also administers the Canada Pension Plan (CPP). Through the Pension Benefits Standards Act and the Income Tax Act, it has an important role in the regulation of employer-sponsored pension plans.

4.3 The federal government also administers and provides funds for pension programs for other specific groups of individuals. These include veterans' pensions and pensions for federal employees, judges and MPs. Directly and indirectly, it also provides funds for Crown corporation pension plans.

4.4 Total direct expenditures by the federal government for public and employee pension programs were about $17 billion in 1984-85 or 17 per cent of budgetary expenditures. (This excludes CPP benefit payments of $4 billion which were funded by employer/employee contributions). There is no precise information on tax expenditures relating to retirement income, but, based on published government statistics, they are estimated to be in the $5 billion to $10 billion range annually.

Audit Scope

4.5 This audit focused on the public pension programs administered by the federal government - the Old Age Security program and the Canada Pension Plan. Today, most elderly Canadians are dependent on these pensions as their major source of income. Exhibit 4.1 shows retirement income of the elderly in 1983 by source.

4.6 Our overall objectives were to assess the adequacy and accuracy of financial and other information provided to Parliament on public pension programs, and to evaluate the adequacy of systems and procedures in place for managing these programs.

4.7 Our audit was carried out in the Department of National Health and Welfare, which has primary responsibility for administering these programs, and in the Departments of National Revenue, Supply and Services, Finance, and Insurance, the Canada

Employment and Immigration Commission, and the Treasury Board. All have a role to play in public pension management.

Exhibit 4.1

SOURCES OF INCOME OF PERSONS AGED 65 AND OVER IN CANADA IN 1983

Income Source	Percentage of Income	
	For age group as a whole	For those with an annual income of less than $25,000 *
Old Age Security, including Guaranteed Income Supplement	35.9	44.0
Canada / Quebec Pension Plan	11.9	13.7
Employer-Sponsored Pension Plans	13.6	12.9
Investment Income	21.6	18.3
Other, including Employment Income	16.9	11.2

*** 94% of persons aged 65 or over have an annual income of less than $25,000**

Nearly 50 per cent of the total income of the elderly is from public pensions.

Source: Statistics Canada, Survey of Consumer Finances, 1984, Unpublished Data
Note: All figures have been rounded individually

Overview of Programs Audited

4.8 **Old Age Security.** This program is the cornerstone of the Canadian retirement income system. It has three basic components:

- Basic Pension (OAS) - payable to all individuals once they reach age 65, provided they meet residency requirements;
- Guaranteed Income Supplement (GIS) - additional income assistance to OAS pensioners who have limited income; and
- Spouse's Allowance (SPA) - income assistance to OAS pensioners' spouses who are between ages 60 and 64 and who have limited combined income.

4.9 During 1984-85, of the 2.5 million Canadians who received the basic OAS pension benefits, 1.3 million also received GIS benefits. An additional 94,000 Canadians received SPA benefits.

4.10 The Old Age Security program is financed from general revenues. In 1984-85, OAS, GIS and SPA benefit payments totalled $11.4 billion or 11 per cent of the government's total budgetary expenditures for the year.

4.11 **Canada Pension Plan.** CPP is a compulsory, contributory, earnings-related pension plan providing retirement, disability, and survivor's benefits. Except for those individuals employed in the Province of Quebec, which has a separate but similar plan, CPP covers all employees and self-employed persons who contribute and have contributed to the Plan, and their dependents. Benefits are based on the period of contributions and the individual's earnings during that period.

4.12 The CPP is still a maturing plan. Many of the present beneficiaries retired during the phase-in period (1967-1976) and receive only a partial benefit payment. Currently, the average CPP retirement benefit paid is approximately 50 per cent of the maximum amount payable.

4.13 The Plan is financed by contributions from employers, employees and self-employed individuals, and interest earned on investments. Currently, approximately 9 million people contribute to the Plan and about 1.7 million receive benefits. Contributions for 1984-85 were $3.9 billion and benefit payments were $4.2 billion. Interest totalled $2.9 billion.

4.14 CPP is operated on a partially-funded basis. In the early years, because of phasing in the program and the high ratio of contributors to pensioners, the excess of contributions over benefit payments resulted in a build-up of funds. As provided in legislation, these funds ($27.6 billion as of 31 March 1985) are made available for investment in securities of the provinces and the federal government, on the basis of the contributor's place of employment.

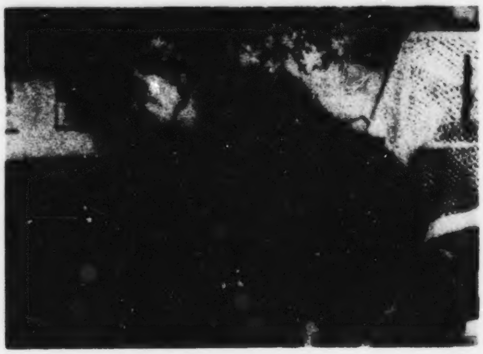
4.15 The Plan is now at a cross-over stage. In 1984 benefits and expenses exceeded contributions and, in 1994, the balance of funds on hand will begin to decrease when benefit payments and expenses will exceed contributions and interest. Currently, the federal and provincial governments are actively considering various financing alternatives which include, among others, increasing future contribution rates to meet benefit payments, as well as delaying contribution increases by drawing down the balance of funds, as required, to meet benefit payments and expenses.

4.16 Exhibit 4.2 shows an overview of the history of the development of these programs.

Environment

4.17 The pension system in Canada operates in a complex environment. Some of the major factors that influence pension policy and the management of public pension programs by the federal government are discussed here.

HISTORY OF FEDERAL PUBLIC PENSIONS

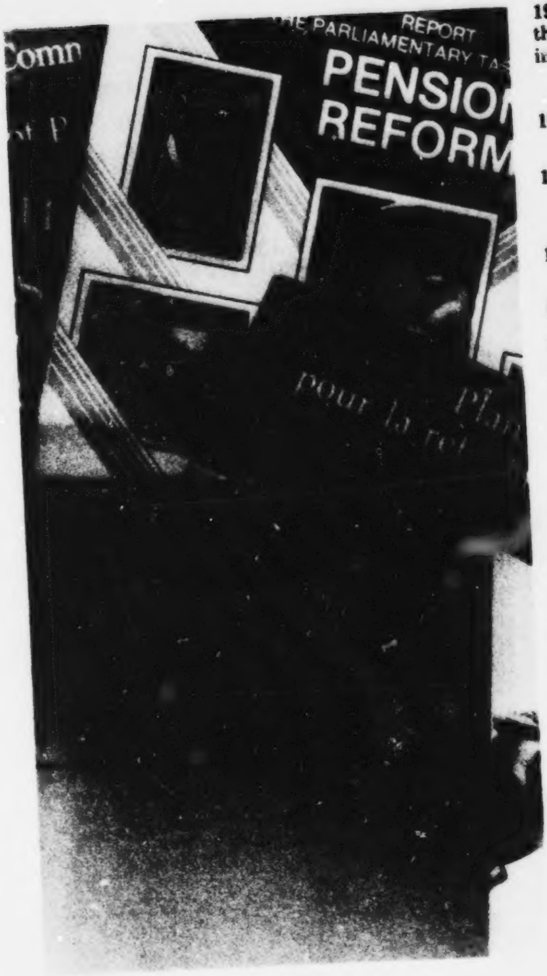


Courtesy Public Archives Canada

1900 to 1950 Two world wars and the Great Depression caused social disruption and changed the needs and expectations of most Canadians.

1927 First old age pension introduced, a means - tested program.

Exhibit 4.2



1950 to 1975 The income security programs that form the basis of federal public pensions in Canada today were established.

1952 Old Age Security program. Universal flat rate. Not targeted to specific income level.

1965 Canada Pension Plan. Maximum benefit payable targeted to 25 per cent of Average Industrial Wage.

1967 Guaranteed Income Supplement, an income-tested program.

1968 Partial indexing of public pension programs.

1973 to 1974 Full indexing.

1975 Spouse's Allowance, an income-tested program.

1975 to 1985 Programs fine-tuned in this decade, and changes targeted toward specific groups. Reciprocal agreements on social security signed with six other countries.

Extensive public debate on pension reform.

1980 Ontario Royal Commission on Status of Pensions.

1981 National Pensions Conference

1983 Federal government green paper "Better Pensions for Canadians".

Parliamentary Committee on Pension Reform.

1984 Federal government brown paper "Pension Reform".

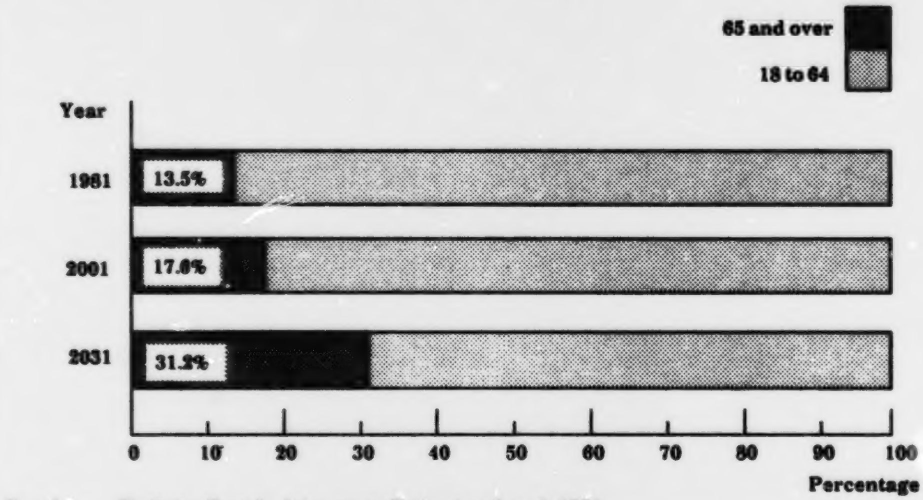
1985 Federal government consultation paper "Child and Elderly Benefits".

The Future The first of the baby boom generation reaches age 65 about 2011.

4.18 **Changing demographic base.** In Canada, the ratio of people 65 and over to those under 65 is currently 1 in 10. This is expected to double to 1 in 5 in less than 50 years. This trend will continue unless there are substantial changes in immigration and/or birth patterns. The first of the baby-boom generation will reach age 65 early in the next century. Exhibit 4.3 illustrates that the number of recipients of program benefits is projected to increase significantly in proportion to the size of the workforce that will be supporting the costs of these benefits.

Exhibit 4.3

PERSONS AGED 65 AND OVER AS A GROWING PERCENTAGE OF THE POPULATION IN CANADA AGED 18 AND OVER



Based on: Statistics Canada, Intercensus Estimates; June 1, 1981
Statistics Canada, Population Projections for Canada, Provinces and Territories from 1984 to 2006 (includes projections to 2031 for Canada only); Population Projection No. 1; 1985, Cat. 91-520

4.19 **Concept of universality.** Both past and present governments support the concept of maintaining universal social programs. In its Child and Elderly Benefits Consultation Paper, published in January 1985, the government stated that "the concept of universality is a keystone of our social safety net. Its integrity must not and will not be called into question".

4.20 **Program objectives.** The federal government's objective in providing these programs is to maintain and improve the income security of the people of Canada. CPP benefits are targeted to 25 per cent of the Average Industrial Wage. However, the Old Age Security program (OAS, GIS, SPA) is not linked to any specific target or income level. This, together with the fact that there is no single definition of a reasonable level of income for the elderly, adds to the complexity of both policy making and program management.

4.21 **Federal/provincial roles.** The Constitution Act, 1867, gives the provinces jurisdiction over public pension matters. Amendments to the Act, required before the Old

Age Security and Canada Pension Plan programs could be established, allowed the federal government to provide old age pensions, provided that federal laws did not affect provincial laws in the same area. Although the federal government has the power to amend benefits under the Old Age Security program, no changes in the level of benefits or contribution rates of CPP may be made without the approval of a majority of the provinces. In addition, by law, provinces have the right to opt out of CPP at any time and establish their own comparable plan. Thus, provinces play a significant role in policy setting; federal-provincial committees of ministers and deputy ministers meet on a regular basis for this purpose.

Accountability for Public Pension Management

4.22 The Old Age Security and Canada Pension Plan programs are large and complex to administer. They involve extensive policy negotiations and consultations within the federal government and with the provinces and numerous special interest groups. They also involve running one of the largest and most important service operations in the federal government, maintaining an enormous computerized record-keeping system, and ensuring that over four million cheques are delivered on time every month to over three million individuals.

4.23 Through Acts of Parliament, the Minister of National Health and Welfare has the sole responsibility for the administration of the Old Age Security Act and has responsibility for administering all parts of the Canada Pension Plan, except for the part dealing with collecting CPP contributions and determining coverage, which has been assigned to the Minister of National Revenue. In addition, the Department of Finance plays an important role in policy negotiations and discussions on financing with provinces and special interest groups. The Department of Supply and Services provides the majority of EDP support services for the programs. In addition, two other departments play important roles in the administration of CPP: the Department of Insurance provides actuarial services, and the Canada Employment and Immigration Commission administers the Social Insurance Number system.

4.24 The CPP regulations specifically provide that the Director General, Programs Operations, Income Security Programs Branch (ISPB) in the Department of National Health and Welfare, is responsible for maintaining liaison with all departments involved in the operation of CPP and with the Province of Quebec in respect of the Quebec Pension Plan "with a view to promoting and maintaining efficient administration of the Act".

4.25 Exhibit 4.4 lists the departments and agencies that have significant responsibility for public pension management.

Management Accountability Within the Department of National Health and Welfare

4.26 Within the Department of National Health and Welfare, we found that the accountability relationships for administering the programs are well defined and understood. The nature and complexity of the programs require a considerable amount of senior management time to be devoted to policy matters. Moreover, because of the public visibility of the programs and the large number of people affected by them, management is

Exhibit 4.4

FEDERAL DEPARTMENTS AND AGENCIES INVOLVED IN PUBLIC PENSION MANAGEMENT

	OAS	CPP
National Health and Welfare		
- Provides policy advice and analysis	✓	✓
- Administers benefit delivery process	✓	✓
- Reports to Parliament on program performance	✓	✓
- Negotiates changes in legislation with provinces	-	✓
National Revenue-Taxation		
- Collects CPP contributions and determines coverage	-	✓
Employment and Immigration		
- Maintains Social Insurance Number System	-	✓
Supply and Services		
- Provides cheque issue and EDP services	✓	✓
Finance		
- Provides policy advice and analysis	✓	✓
- Administers CPP Investment Fund	-	✓
- Jointly with National Health and Welfare, negotiates changes in financing arrangements with provinces	-	✓
Insurance		
- Provides actuarial services	-	✓
Treasury Board		
- Controls operating person years and dollars	✓	✓
Public Works		
- Provides accommodation	✓	✓

faced with the difficult trade-off between providing a consistently high level of service to the population and administering the programs as efficiently as possible.

4.27 Within the past three years, however, the Department has taken a number of steps to improve program administration. These include: introducing improved planning and evaluation systems; establishing a long-term initiative to redesign and upgrade existing record-keeping and payments systems; and creating the position of Comptroller, CPP, to improve financial management of that program.

4.28 These are important steps but, in our opinion, the Department can take further steps to enhance the administration of public pensions. These steps, as discussed in the following sections of the chapter, include improving the quality and type of financial and performance information provided to management and to parliamentarians, implementing productivity improvements, and strengthening financial controls over benefit payments. We recognize that the Branch's long-term initiative to improve its delivery systems is addressing many of these issues. However, given that many of these observations have been raised in previous audit reports, we are concerned about the length of time taken to implement improvements.

Liaison Among Departments Sharing Management Responsibility

4.29 Accountability for the administration of CPP presents a particular dilemma. On the one hand, by legislation, the Plan is a separate entity that requires a separate accounting for its revenues and expenditures. Costs of administering the Plan by the federal government must, by legislation, be charged to the Plan's accounts. On the other hand, for operational purposes, CPP shares common management, common facilities, and common systems and services with the other programs (Family Allowances and Old Age Security) administered by ISPB. This, together with the numerous departments involved in CPP's administration and shared federal-provincial responsibilities for the Plan, adds to the complexity of the accountability relationships.

4.30 There is significant room for improvement in the accountability for CPP administration.

4.31 The authority delegated to the Department of National Health and Welfare under the CPP regulations for liaising and co-ordinating activities with other federal departments and the provinces has not been fully exercised. ISPB has not always taken an active role in carrying out its responsibilities. In fact, it defines its role as being responsible for administering only specified parts of the Canada Pension Plan.

4.32 In some instances, there has been no regular, formal communication and co-ordination between the Department of National Health and Welfare and the other departments involved in the administration of the Plan. In addition, written agreements for the provision of administrative services do not exist for all departments, and where they do, they do not contain guidelines on the quality and level of service provided to the Plan. The absence of formal and continuous communication and co-operation among the entities involved has had a detrimental effect on the efficient administration of the Plan (See Example 1).

Example 1

Canada Pension Plan

Continuing Problems in the Record of Earnings

4.33 The Income Security Programs Branch administers a computerized record of earnings system which is a permanent record of all contributions made by each contributor to the Canada Pension Plan together with earnings information related to that contributor. The information is provided by National Revenue-Taxation, which collects the CPP contributions through the tax system. Determination of the CPP benefit is based on information contained in the record of earnings.

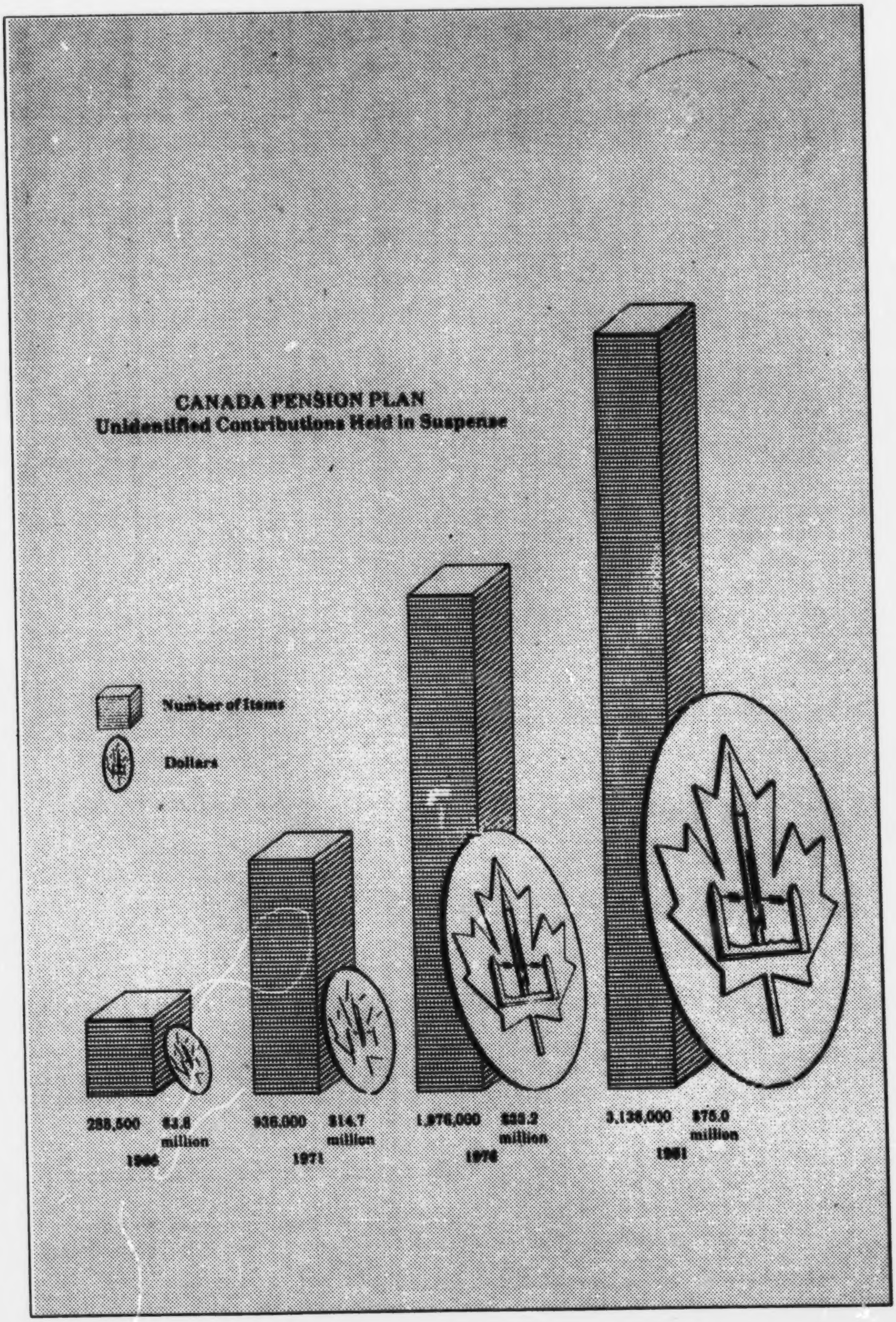
4.34 As of 31 March 1985, the system contained 16 million accounts and, during 1984-85, over 28 million individual entries were recorded in these accounts. The sheer volume of the transactions, together with the intricacies of the CPP legislation, makes it a huge and complex system to administer.

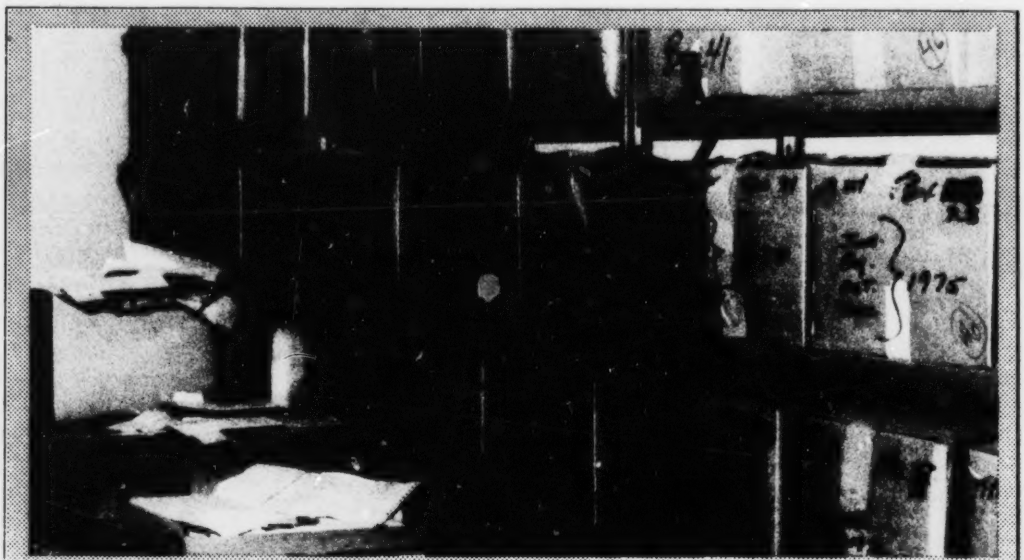
4.35 The integrity of the record of earnings has been a concern to ISPB management and to us for some time. Managers are aware of the fact that the system is outdated, overpatched and saturated, that communication among major players is weak and the system is prone to error.

4.36 While the errors are numerous, they have not to date resulted in significant errors in benefit determination for CPP contributors.

4.37 In 1978, we recommended that a study be made to review ways of improving controls over the system with a view to identifying and correcting any errors on file. In 1983 and 1984, a project to examine and redefine the record of earnings was carried out by ISPB. Some 100 areas for improvement were identified. Examples are:

- The record of earnings contains more than 3 million suspense items, mainly due to incomplete or invalid information submitted by contributors and employers.
- Some accounts have had double postings of contributions and related earnings for one or more years since 1967.
- Refunds of contributions made by Quebec to individuals residing in Quebec who have contributed to CPP have not been recorded in the record of earnings since the inception of CPP (see photo).
- Contributions from self-employed individuals written off by the Department of National Revenue-Taxation as uncollectable have not been recorded because of insufficient information provided to ISPB.


CANADA PENSION PLAN
Unidentified Contributions Held in Suspense
Number of Items
Dollars
288,500
$3.8 million
1966
936,000
$14.7 million
1971
1,976,000
$33.2 million
1976
3,136,000
$75.0 million
1981



Some of the 41 boxes containing notices of refund of contributions from Quebec, accumulated since the inception of CPP and not recorded in the record of earnings (see paragraph 4.37).

4.38 One of the major reasons for many of these problems is that there has been no regular formal communication between ISPB and the Department of National Revenue-Taxation in recent years to resolve the problems in the record of earnings. An interdepartmental committee, formed at the inception of the Plan in 1965, to meet every three months, has not met on a regular basis since 1976.

4.39 We estimate that approximately 25,000 accounts in pay have errors in benefit determination as result of these problems. They are mainly overpayments and, with some exceptions, these individual errors are not significant. However, as the number of accounts in pay and the level of benefits increase, and without correcting identified problems (some of which recur each year),these errors could continue and could increase in number.

4.40 The systems redesign is now part of the long-term initiative referred to in paragraph 4.149 and additional resources have been devoted in the short-term to address some of the problem areas. Recently, a new contributor information program was implemented that will allow CPP contributors to review the accuracy of the earnings information.

4.41 However, in our opinion, a number of other steps, in addition to those under way, could be taken to reduce significantly the number of existing errors. These include re-establishing formal communication channels among all parties, exchanging more complete contributor information among these parties, ranking risk areas and improving use of existing system design features to prevent errors.

4.42 Recently, there has been more active liaison and communication among departments in connection with the long-term project to upgrade benefit delivery systems. This should be extended to all aspects of the Plan's operations.

4.43 The Department of National Health and Welfare should play a greater leadership role in the administration of the Canada Pension Plan by fully exercising the liaison and co-ordinating roles delegated to it by legislation. Specifically, it should:

- **help other involved departments establish and implement guidelines for measuring and reporting performance, and should regularly review and monitor this information; and**
- **include in the annual report of CPP a detailed accounting of the administration of the Plan to permit an independent and public scrutiny of its operations.**

Department's response: The need for enhancing and formalizing Health and Welfare Canada's leadership role for the administration of the Canada Pension Plan has been recognized. Some initiatives have already been taken in this regard and plans are being developed to strengthen the liaison, co-ordinating, reporting and management responsibilities vis-a-vis Health and Welfare Canada and other departments associated with the Canada Pension Plan.

4.44 Within the Department of National Revenue - Taxation (NR - T), which is responsible for collecting, assessing and reporting CPP contributions through the taxation system, responsibility is fragmented. This is partly due to the fact that CPP collection processes are an integrated part of the NR - T revenue collection process and are not treated as a separate operation. There is no one individual within the Department with responsibility for liaising and co-ordinating with the Department of National Health and Welfare to ensure that information on amounts collected is accurate and complete. This fragmentation of responsibility has contributed to communication and co-ordination difficulties, which in turn have delayed correction of long-identified problems.

4.45 The Department of National Health and Welfare, together with the Department of National Revenue - Taxation, should ensure that proper procedures are in place for the collection, recording and transfer of accurate and complete Canada Pension Plan contributor information.

Department's response: A joint National Health and Welfare/Revenue Canada - Taxation Committee has been established to identify and resolve issues of mutual concern. Problems related to the procedures for the collection, recording and transfer of Canada Pension Plan financial information will be referred to that Committee by National Health and Welfare for appropriate action.

Role of Treasury Board

4.46 The concept of separate accountability for the administration of CPP funds, while still maintaining integrated management processes, creates potential conflict-of-interest situations. We are not advocating that this should be otherwise, but we believe that there should be a greater awareness that these situations do exist and of the potential problems they can create. At present, Treasury Board plays a limited role in reviewing CPP operations. The Secretariat informed us that its reasons are twofold - first, the Plan is not subject to annual appropriation and, second, its operations do not affect the Consolidated Revenue Fund. Nonetheless, we believe there should be a greater scrutiny by Treasury Board of the administration of CPP, particularly in those areas where potential conflict-of-interest situations exist. An example of such a situation occurs in ISPB where 30 per cent of its operating budget – or $35 million – is recovered from CPP. As described in paragraph 4.163, Treasury Board has little involvement in the review of these budget estimates and the actual cost recoveries from CPP.

4.47 **The role of Treasury Board in the administration of the Canada Pension Plan should be strengthened to ensure that there is an independent scrutiny of the Plan's operations, including the administrative costs charged to it. This role should be at least equal to the Treasury Board's role in monitoring other departmental programs.**

> *Treasury Board's response: A comprehensive review of the policies and procedures currently in effect regarding recoveries from the Canada Pension Plan is under way. The report from that study is expected to result in a submission in the next fiscal year to the Treasury Board concerning the costs charged to the Canada Pension Plan. At that time and with the benefit of the results of the comprehensive review, the Treasury Board would be in a position to assess the appropriate degree of involvement which it should have in the administration of the Canada Pension Plan.*

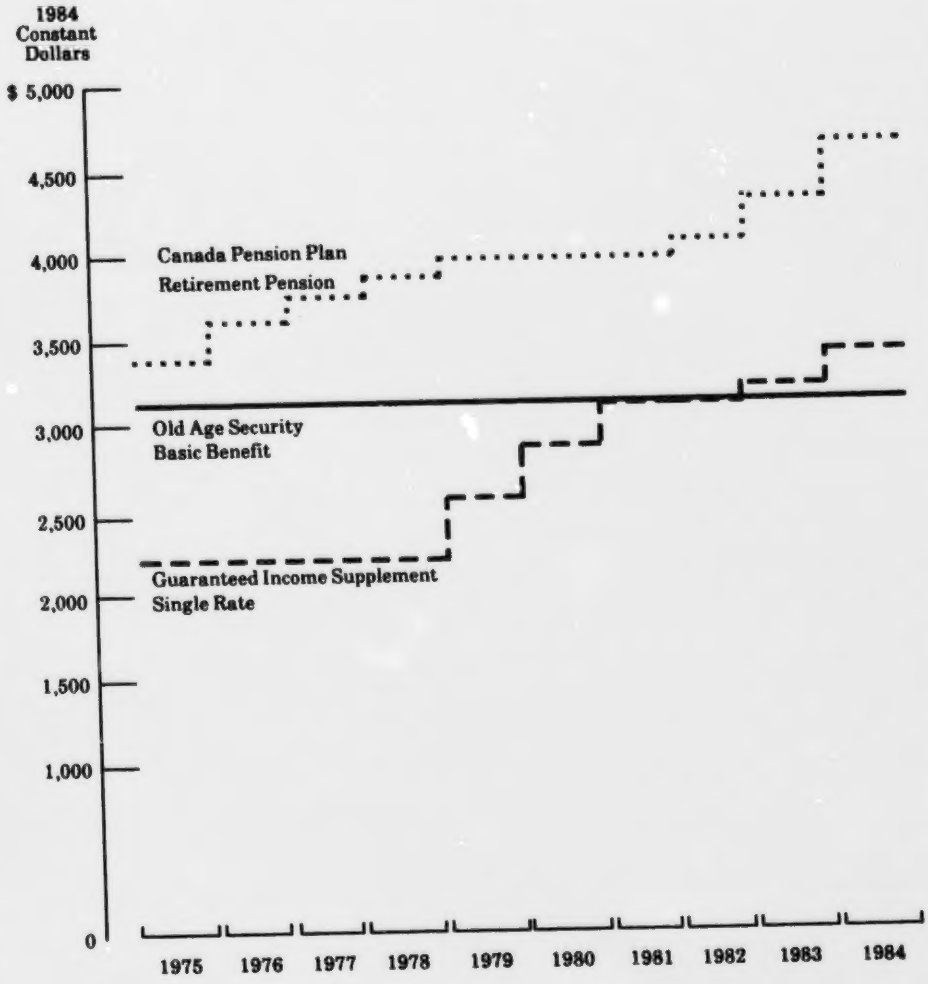
Pension Costs and Commitments

4.48 The costs of supporting public pension programs are enormous and will continue to increase as the number of Canadians age 65 and over continues to rise and legislative changes increase level of benefits. In addition, long-term costs are affected by inflation, employment levels, interest rates, the role of employer-sponsored plans and private savings, and changes in social policy. As an example, the last two amendments to the Old Age Security program in June 1984 and June 1985 will result in additional annual benefit payments of over $800 million, an increase of 7 per cent in total benefits paid. Increases in level of certain retirement benefits for the past 10 years, exclusive of indexation adjustments, are shown in Exhibit 4.5.

4.49 We are concerned that parliamentarians do not have adequate information to assess and understand fully both short-and long-term financial implications of public pension programs. Long-term costs are not estimated regularly, except for CPP. Moreover, despite previous recommendations by parliamentary committees, there is no mechanism in place for regular review of long-term financial implications and commitments of these programs.

Exhibit 4.5

MAXIMUM ANNUAL BENEFITS PAYABLE for Years Ended 31 December 1975 to 1984



Notes

1. OAS basic benefit has remained relatively constant over the past decade, while GIS benefit has been significantly increased for single elderly.
2. Legislative change in 1975 provided for increasing maximum CPP benefit yearly by 12.5 per cent until it reaches original target level (25 per cent of Average Industrial Wage).

4.50 Several departments play essential roles in forecasting pension costs. However, the lack of an overall policy regarding the costing of these programs has at times resulted in inconsistent cost forecasts of proposed program changes and delays in providing financial information.

4.51 Finally, the quality of information provided to Parliament through the Estimates and annual reports has deteriorated, with the result that there is, in our opinion, insufficient information for parliamentarians to assess financial performance of the programs.

4.52 To assess the accuracy and adequacy of disclosure of costs and commitments for public pensions, we reviewed the roles and responsibilities of the departments involved in the forecasting and financial reporting process, procedures for forecasting short-term and long-term cost commitments, and procedures for reporting financial performance and results to Parliament.

Long-term Costs and Commitments

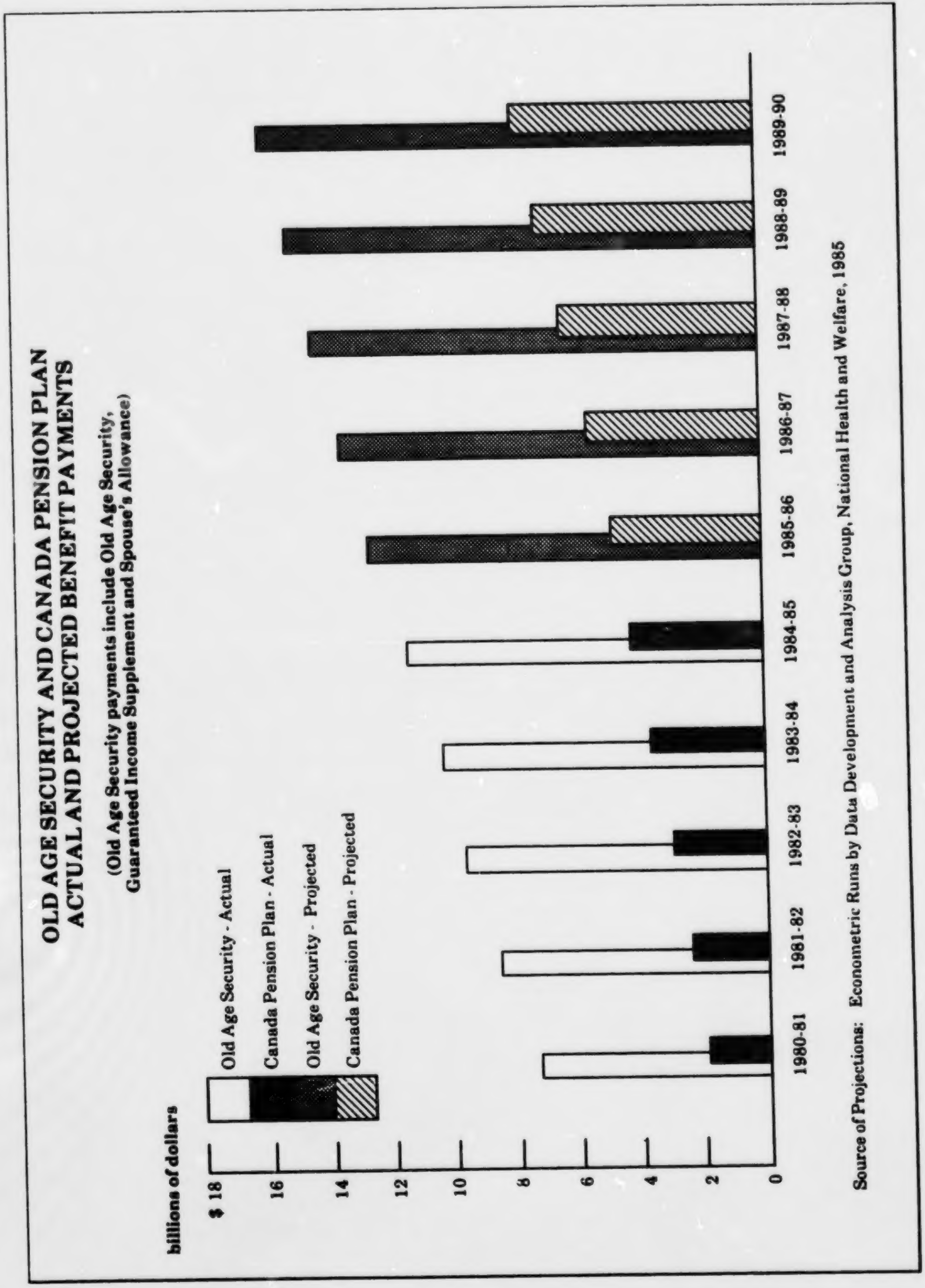
4.53 As noted above, the costs of supporting public pension programs are substantial and increasing. Program amendments made today have both short- and long-term financial implications; some amendments will not have a major cost impact for many years.

4.54 Given the magnitude of the costs, an increasing elderly population, and the complexity of other factors affecting these programs, it is reasonable to assume that there should be quantification and a periodic review by the government of long-term financial implications. In addition, it is also reasonable to expect that when reviewing proposed changes to programs, long-term financial implications, as well as short-term costs, should be considered.

4.55 Long-term costs and commitments for public pensions are not estimated regularly, and there are no formal requirements to do so, except for the Canada Pension Plan, which by legislation requires quantification of long-term costs every five years and when proposed amendments are introduced. The most recent report of the Chief Actuary of the Department of Insurance estimates that long-term commitments for CPP, based on benefits to be paid to people alive now, could be as high as $225 billion.

4.56 All Old Age Security benefits are paid under the unlimited statutory appropriations contained in the Act; that is, they do not require annual appropriations. Thus, the program is not subject to annual debate - discussions of this nature occur only when there are program changes or in specific circumstances, such as in the current consultation process. Exhibit 4.6 shows the growth of public pensions in the last five years and the projected costs for the next five years. Under present benefit formulas, as the Old Age Security program is universal and CPP is earnings-related, current expenditures for Old Age Security are much higher than for CPP. Although the gap in level of expenditures is diminishing (see Exhibit 4.6), it is logical to assume Old Age Security long-term commitments would be significantly greater than those for CPP.

Exhibit 4.6



OLD AGE SECURITY AND CANADA PENSION PLAN ACTUAL AND PROJECTED BENEFIT PAYMENTS

(Old Age Security payments include Old Age Security, Guaranteed Income Supplement and Spouse's Allowance)

Source of Projections: Econometric Runs by Data Development and Analysis Group, National Health and Welfare, 1985

4.57 In 1979, the Royal Commission on Financial Management and Accountability recommended that federal statutory programs be reviewed regularly, stating:

> Though changes in the levels of statutory expenditure can be legislated at any time, there is no general requirement for the Government to review the effectiveness and continuing desirability of programs under which these expenditures are made. Changes in public attitudes and expectations, as well as in economic factors, private sector capability, and technology can render programs redundant or obsolete. Furthermore, duplication of legislation and services at federal and provincial levels can more than double the cost of achieving an objective and multiply the cost to the private sector of fulfilling legislative requirements. These observations have led us to the view that a process should be developed to ensure that statutory programs are periodically reviewed in depth by Parliament as a prerequisite for continued funding.

4.58 The Commission went on to recommend specifically that:

> with respect to existing statutory programs, legislation be enacted to require the responsible minister to evaluate once in the next ten years and thereafter every five years the current and projected costs and benefits of all these programs, except those relative to interest on the public debt, and that a report thereon be tabled in Parliament and be automatically and permanently referred to the appropriate standing committee for its consideration and recommendations.

4.59 We see no reason why this should not apply to federal public pension programs.

4.60 In 1983, the Parliamentary Task Force on Pension Reform recommended that a review of commitments for all public pensions should be carried out in conjunction with the regular five-year review of CPP. Specifically, it suggested that:

> ... the Minister of Finance table in the House of Commons every five years ... a comprehensive set of cost projections for the public pension system ... in order to promote public debate about the extent and sustainability of current commitments.

4.61 To date, the government has taken no action to implement these recommendations.

4.62 Regular quantification of long-term obligations for all public pensions and a review of these commitments would identify the long-term costs of existing programs, as well as implications of any changes to the programs, and would indicate the extent to which future government spending will be directed to financing public pensions. As future spending levels depend on a variety of economic and demographic factors, including economic growth, inflation, fertility and mortality, several sets of assumptions should be used in preparing these projections.

4.63 In conclusion, we support the recommendations of the Royal Commission on Financial Management and Accountability and the Parliamentary Task Force on Pension Reform for a regular review of long-term costs and commitments for public pension programs.

Forecasting Process

4.64 There are three departments involved in forecasting public pension costs – National Health and Welfare, Finance and Insurance. In addition, the Office of the Comptroller General has responsibility for the quality of financial reporting practices. National Health and Welfare forecasts both macro and micro effects of changes in pension policy (for example, the number of persons affected by changes; effects on income levels for an average family). The Department is also responsible for quantifying the financial effects of program changes for both Cabinet documents and Budget announcements, as well as estimating annual cash requirements for the programs.

4.65 The Department of Finance reviews all proposed pension program changes from the point of view of overall government policy and affordability. The Department also forecasts the effects of changes to the CPP contribution rate on the economy as a whole, estimates the amount of annual CPP contributions, and forecasts the amount of excess funds available for investment. It is also the lead player on behalf of the federal government in current federal-provincial discussions on the financing of CPP.

4.66 The Chief Actuary of the Department of Insurance, as required by legislation, carries out long-term financial forecasts of CPP every five years and when any amendments with financial implications are proposed for CPP.

4.67 Thus, economists, accountants and actuaries all play vital parts in the process. The forecasting processes in the Departments of National Health and Welfare and Insurance are generally acknowledged by the users of the information to be good. In recent years, the forecasts of National Health and Welfare supporting legislative amendments to the Old Age Security program have proved accurate.

4.68 Some eight departments are involved in the management of public pensions. When programs cross departmental boundaries, it is important that roles and responsibilities be clearly defined. We found that the various professionals (economists, accountants and actuaries) involved in the process do not have a sufficient understanding of one another's role in the forecasting process and that there is room for improved co-ordination and communication among these individuals. In addition, on occasion there has been insufficient consultation by third parties with these individuals. This has resulted, at times, in providing incomplete, inconsistent and late information to both management and parliamentarians and other external users of financial forecasts. Some examples of the reasons for our concerns about the need to clarify roles and responsibilities include:

- The Parliamentary Task Force on Pension Reform, which reported in December 1983, made a number of important recommendations to reform the public pension system. In estimating the cost of these recommendations, the Committee used its own research staff. The Task Force report contains the caveat that these were "rough estimates". There was very little involvement of government officials in reviewing cost estimates. What review there was occurred just prior to the release of the report. In some cases, the recommendations of the Task Force were not costed. In others, subsequent costing by the Departments of National Health and Welfare and Insurance indicated major differences in costs. Exhibit 4.7 illustrates the significant differences between the Task Force estimates and those of the government. The time constraints under which the Task Force was working were formidable, but nevertheless there is a need for accurate costing of program proposals for such major expenditures. While ultimate responsibility for the costs rests with the Task Force, we believe that there is onus on the government to ensure that committees such as this are made fully aware of the expertise available in the Departments to assist in evaluating financial implications of proposed policy changes.

In January 1985, the Fiscal Policy Division of the Department of Finance, which is responsible for forecasting the amount of CPP contributions, advised the Department of National Revenue of a $314 million reduction in the estimated CPP contributions for the 1984 calendar year. National Revenue in turn advised the Department of National Health and Welfare. Health and Welfare then advised the Financial Services Division of the Department of Finance. This Division is responsible for determining and communicating to the provinces the amount of funds available for investment. It took six weeks from the time the reduction in amount was determined (a decrease of seven per cent of total annual contributions) to the time the provinces were advised. As a result, the provinces were advised that, instead of $222 million being available for investment in March 1985 as originally forecast, no funds would be available in that month and the funds available for April 1985 investments would be reduced. (Finance officials informed us that this was the first time there had been a downward revision in CPP forecasts.)

For macro-economic purposes, the Fiscal Policy Division also estimates CPP payments. These estimates are not compared to the annual benefit payments estimated by the Department of National Health and Welfare.

4.69 Adoption or serious consideration of a change in policy may depend on the cost of the proposal. If decisions are being made without consideration of costs or on the basis of inaccurate costs, policy decisions may be made without due consideration for their affordability.

4.70 **Because of the significance of public pension costs, the number of departments involved, the current ongoing decisions on pension reform, the role of public pensions in overall government spending, as well as the unique operational aspects of the Canada Pension Plan, there should be a focal point for the overall co-ordination of the forecasting process.**

Exhibit 4.7

RECOMMENDATIONS BY PARLIAMENTARY TASK FORCE ON PENSION REFORM

Examples of Differences Between Estimates by the Task Force and the Departments of National Health and Welfare and Insurance of the Costs of Certain Recommendations

	Estimated Cost by	
Task Force Recommendation	**Task Force** (additional annual cost increase in millions)	**Department**
Introduce a retroactive homemaker pension in the Canada Pension Plan *	1st year - $900	1st year - $ 1,355 3rd year - 1,742 15th year - 4,241 40th year - 12,248
Increase GIS single rate by $102 per month	350	480
Extend SPA benefits to all widows/widowers aged 60 to 64 years	150	325
Raise level of OAS benefits to 1967 level of Average Industrial Wage (16.8% in 1967; 14% in 1984)	Not costed	1,400

* The Task Force estimate, assuming implementation in 1984, was .76 per cent of contributory earnings. The Department of Insurance estimate, assuming implementation in 1986, was .94 per cent of contributory earnings.

4.71 In our view, the Office of the Comptroller General, because it has overall responsibility for reporting to Parliament (through the Estimates and the Public Accounts of Canada) should be responsible for ensuring that this process is co-ordinated. Better co-ordination of the process would also facilitate carrying out regular reviews of long-term costs and commitments.

4.72 The Office of the Comptroller General, together with the Departments of National Health and Welfare, Finance, and Insurance, should establish a co-ordinated process for forecasting public pension costs and ensure accurate, consistent and timely reporting of financial information. In particular:

- **The important roles of the Departments in the process should be documented in a manner that will ensure the consistent quantification and disclosure of pension costs.**
- **Whenever cost forecasts are provided, the assumptions used in the calculations should be clearly stated.**
- **Procedures should be established to ensure that parliamentary task forces, federal-provincial committees and other officially established groups considering changes to public pension programs are made aware of the availability of the expertise and the assistance needed to formulate accurate long-and short-term cost proposals.**

> *Office of the Comptroller General's response: The Office of the Comptroller General has, in general, a role in ensuring the quality of financial reporting practices. However, it would not like to prejudge who should be the focal point for ensuring a co-ordinated process for forecasting public pension costs given the roles and responsibilities that the various departments currently have. The Office will examine this issue together with all affected departments.*

Reporting to Parliament

4.73 The government accounts to Parliament for the financial performance of the Old Age Security program and the Canada Pension Plan through the Estimates and annual reports.

4.74 We reviewed the accuracy and adequacy of financial information in these documents which are produced by the Department of National Health and Welfare.

4.75 **Estimates**. In our opinion, the information contained in Part III of the Estimates on public pensions does not fully meet the standards for disclosure developed by the Office of the Comptroller General. These standards require explanation of reasons for any significant changes or trends in the level or structure of program expenditures. While program forecasts and expenditures are adequately costed and disclosed on a macro level, there is insufficient explanation of the financial effect of policy changes to programs, details of program elements, and operational initiatives.

4.76 New initiatives and changes to benefits and eligibility criteria have significant effects on program costs. Parliamentarians should be advised of such changes and should be provided with estimates of their cost. This information is prepared and reported on when legislative changes to programs are introduced. The same level of disclosure should be included in Part III of the Estimates. Without this information, it is virtually impossible fully to understand or assess programs and their costs.

4.77 For instance, in the 1985-86 Estimates:

- The financial effects of policy changes introduced during 1984-85, which affect both the structure and level of program benefits, were not disclosed separately in forecast 1985-86 costs. They are:
    - Two increases of $25 a month in GIS for single pensioners were introduced in July and in December 1984, at an additional annual cost of $460 million. The increase in program benefits is described as a cost variance and the reason for the increase is not disclosed.
    - Costs under the Old Age Security program of entering into international agreements ($18 million in 1984-85) are not disclosed.
- Detailed analyses of both trends and changes by program components are not provided. The graphic illustration of trends and analysis of cost changes

currently included display benefits in terms of averages only. These averages do little to explain the range of benefits in the program because the benefits can vary significantly. For example, GIS benefits vary by more than $1,000 per year, depending on the individual's marital status. Review by program component is important for assessing whether benefits are being directed at target groups of individuals. Moreover, this information, which is readily available in the Department, is not used by management in reviewing program operations.

4.78 We also believe that there has been some deterioration in the kind of financial information provided since Part III was first introduced in the 1982-83 Estimates.

4.79 There are also two important items that have not been included in the Estimates – information on tax expenditures, and assumptions used in determining forecasts. In view of the magnitude of the costs of public pension programs, however, it would seem essential that this information be disclosed. For example:

- Two key assumptions used in forecasting public pension costs are inflation rates and program take-up rates. Disclosure of these assumptions, as well as the department responsible for their development (Finance, in the case of inflation) would facilitate evaluation of the programs.

- Information on tax expenditures (which are substantial) that was disclosed in the Estimates until two years ago, is no longer provided. The federal government's "Child and Elderly Benefits" consultation paper, released in January 1985, estimated the tax expenditure cost of the over-65 age exemption for 1984 at $560 million and the cost of the $1,000 pension income deduction at $105 million.

4.80 In summary, the information contained in the 1985-86 Estimates, in our opinion, does not fully meet the needs of Members of Parliament.

4.81 The Department of National Health and Welfare, together with the Office of the Comptroller General, should review Part III of the Estimates dealing with public pensions with a view to improving the quality and completeness of financial information for Parliament.

> *Department's response: The Department, in collaboration with the Office of the Comptroller General, will continue its efforts to improve the information contained in Part III of the Estimates.*

4.82 **Annual reports**. The legislation relating to both Old Age Security and Canada Pension Plan requires that the Minister of National Health and Welfare table in Parliament an annual report on the administration of the programs. We consider the CPP report a particularly important accountability document, in view of the requirement for a separate accounting of the Plan and the shared responsibility with the provinces for the program.

4.83 Both annual reports could be significantly improved in terms of content and the way in which information is displayed. Because of the dollar amounts involved in these programs and the range of available benefits, we would expect full information on program operations and individual benefits as well as disclosure of full program costs. More emphasis on the use of graphics and historical summaries of benefits would facilitate understanding of the programs.

4.84 In addition to current financial information, we would expect to see annual reports contain long-term cost projections, references to other currently available statistical information on the programs, disclosure of changes to programs and their costs, a detailed report on operational performance of the programs, major initiatives under way, and a review of trends of average benefits paid out by program components. Little of this information now appears in the Old Age Security annual report and only a limited amount appears in the Canada Pension Plan report.

4.85 Finally, the information would be more useful if the reports were prepared more promptly. As of May 1985, the annual reports for 1983-84 for both programs were not available. There is a need for the Department to explore ways to expedite the production and tabling of the annual reports.

4.86 For the annual reports to Parliament on the administration of the Canada Pension Plan and Old Age Security program, the Department of National Health and Welfare should improve the quality of information in the reports and issue them more promptly.

> *Department's response**: The adequacy of the Canada Pension Plan and Old Age Security annual report will be reviewed in the light of comments made by the Auditor General and the appropriate additions and modifications made thereto.*
>
> *The process followed in the preparation of the reports will be reviewed with a view to issuing them more promptly. Other departments and others providing input to the Canada Pension Plan annual report will be reminded of the importance of submitting their data on time.*

4.87 **Role of Senior Financial Officers**. Senior financial officers in the Department of National Health and Welfare have little involvement in reviewing benefit payment costs for public pensions. Their involvement is more with the administrative costs for these programs (less than one per cent of pension payments).

4.88 We believe that the role of the senior financial officers in the review of the Estimates as well as in long-term costing of pensions and financial analysis of benefit payments can be further enhanced. Involving these officers in all aspects of the financial administration of the programs would facilitate a better understanding of the financial implications of these programs and enhance the overall financial management of programs currently totalling $16 billion in expenditures.

4.89 Senior financial officers in the Department of National Health and Welfare should be involved in all aspects of the financial management of public pensions. This should include a review and analysis of public pension costs for the current and next five years, financial aspects of Cabinet documents, disclosure of pension costs in public documents, and long-term pension costs and commitments.

> *Department's response: HWC financial officers will have a greater involvement in the financial management of the statutory benefit payment programs.*

Benefit Delivery Systems

4.90 **Overview.** The Income Security Programs Branch of the Department of National Health and Welfare is responsible for administering the benefit delivery systems for Family Allowances, Canada Pension Plan and Old Age Security programs. These programs are administered by Headquarters in Ottawa and through a network of 4 area offices, 11 regional offices and 305 client service centres. The centres, which are operated on a full-or part-time basis, depending on location, provide general advice and information on programs to the public, receive benefit applications and amendments, and answer queries on specific accounts. The regional offices process benefits and claims and maintain benefit records. Cheque payments are processed by regional Department of Supply and Services offices. Overall management for the systems is provided by the area offices and headquarters.

4.91 With support from the Departments of Supply and Services and National Revenue - Taxation, every year ISPB:

- processes nearly 100 million benefit payments;
- conducts one million personal interviews;
- answers close to 3 million telephone enquiries;
- processes over 6 million account transactions;
- puts a million new accounts into pay; and
- maintains over 20 million individual accounts.

4.92 Approximately 75 per cent of the volume of these activities pertain to the Old Age Security program and Canada Pension Plan, with the remainder being related to the Family Allowance Program.

4.93 To operate these programs, the Branch maintains comprehensive records on cradle-to-grave statistics on almost all Canadians, including date of birth, earnings, employment and pension contribution information, marital status, disability records, and date of death.

Development of Present Operations

4.94 The Income Security Programs Branch was formed in 1975 by amalgamating two previously separate branches, Income Maintenance Branch (responsible for Old Age Security and Family Allowance) and the Canada Pension Plan Administration. At that time, Old Age Security operations, including record maintenance, were carried out in 10 regional offices across Canada, and CPP operations were centralized in the National Capital Region.

4.95 The following chronology gives the events in the development of present operations.

Department of National Health and Welfare
Income Security Programs Branch

Chronology of Events

July 1975	- Income Security Programs Branch (ISPB) formed by amalgamating two previously separate branches, Income Maintenance Branch (Old Age Security and Family Allowances) and the Canada Pension Plan Administration.
October 1977	- Government decides as part of its decentralization program that ISPB would: - establish an integrated ISPB client service network in all provinces; - establish a CPP benefit processing pilot, decentralize it to Fredericton, NB, and integrate with existing regional operations; - phase decentralization of CPP operations to all other provinces except Quebec; - relocate Nova Scotia regional ISPB operations from Halifax to Sydney; - decentralize Ontario regional ISPB operations to include Toronto (existing), Peterborough, Timmins and Chatham; and - integrate CPP and Old Age Security/Family Allowance district and regional systems and structures, leading to more efficient operations and combined cheques, where desirable.
November 1977 - June 1979	- ISPB client service centres fully integrated in all provinces. - CPP benefit processing operations decentralized to Fredericton.

July 1979	- **President of Treasury Board announces:** - cancellation of relocation of ISPB Nova Scotia Regional Office from Halifax to Sydney; - cancellation of split of ISPB Ontario Regional Office into four smaller offices; and - continuation of decentralizing CPP benefit processing operations, except for the Ontario region (which would remain in Ottawa).
December 1979	- Treasury Board approves timetables and additional resources for decentralization of CPP benefit processing operations, on the conditions that planning in respect of full systems integration (Old Age Security and CPP) be advanced as much as possible and that savings from increased efficiency of integrated operations would begin to be realized in 1984-85.
November 1981	- ISPB forms project team to plan for integration and consolidation of Old Age Security and CPP operations. Implementation now planned for 1986-87.
January 1982	- ISPB decides to re-centralize disability portion of CPP benefit processing activities to serve disabled community better (see Example 4)
June 1982	- Cabinet reverses 1979 cancellation plans for decentralization and directs that: - Nova Scotia Regional Office be relocated from Halifax to Sydney; - Ontario Regional Office be relocated to Chatham, Peterborough and Timmins with a component remaining in Toronto; and - CPP benefit processing operations be decentralized from the National Capital Region to four new Ontario offices.
September 1983	- ISPB submits a request to Treasury Board for additional resources to develop an implementation plan for integrating the delivery systems (as had been instructed by the Board in December 1979). - ISPB explains to the Board that start-up of this project was delayed to preserve stability in operations during the period when CPP benefit processing was being decentralized.

February 1983	-	**Treasury Board approves the September 1982 submission and instructs ISPB to include in the planning project: - an assessment of costs and benefits of integrating War Veterans Allowance program; and - alternative modes of program delivery, including Direct Funds Transfer.**
April 1983	-	**Decentralization of CPP benefit processing operations (except for Ontario) completed on time and under budget.**
July 1984	-	**Treasury Board approves a proposal to develop a plan, to be completed by June 1985, to consolidate, integrate and modernize delivery systems (scheduled for completion by the 1990s).**
November 1984	-	**The Government cancels planned relocation of Nova Scotia Office from Halifax to Sydney.**
January 1985	-	**Timmins Regional Office in operation.**

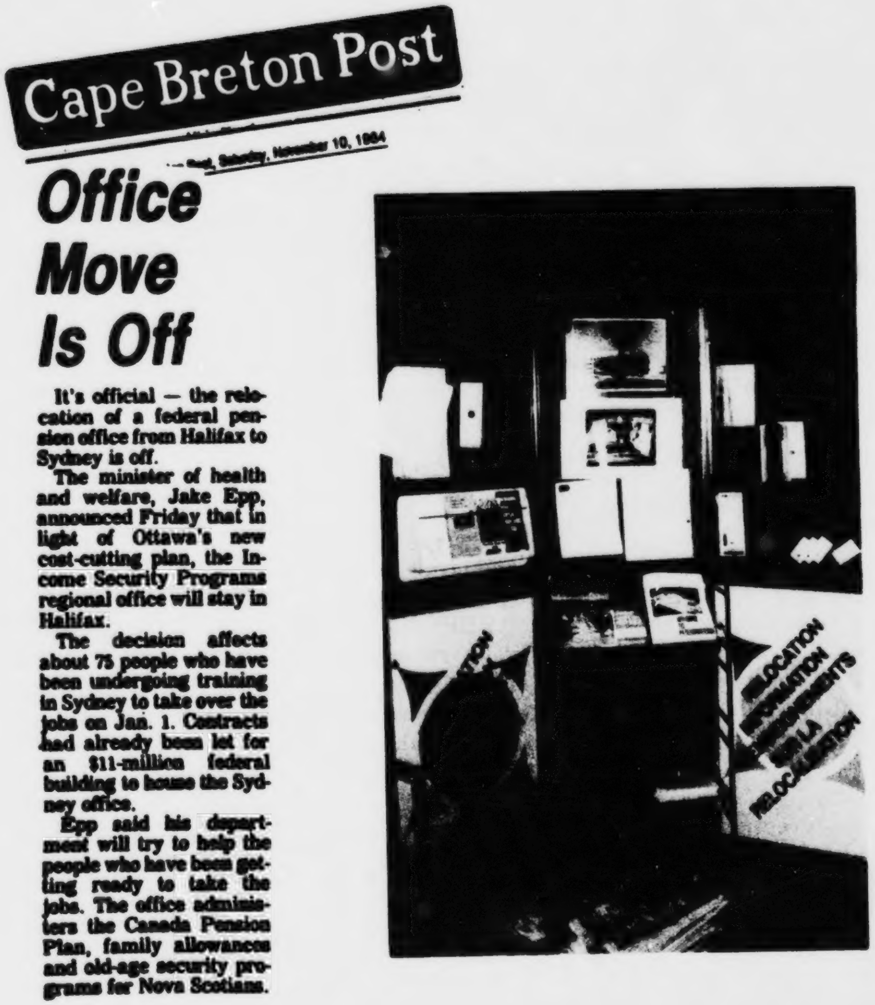
4.96 As part of a government-wide decentralization plan in the 1970s, the Branch was instructed by the government to decentralize and amalgamate certain CPP operations (client service and benefit processing activities) with other income security operations, to relocate regional activities in Ontario and Nova Scotia away from provincial capitals, and to begin integrating CPP and Old Age Security benefit records and cheque payment systems, which were separately maintained on incompatible computer systems.

4.97 The government's objectives were to move program administration closer to the people, assist areas of slow economic growth and high unemployment, increase federal government presence in the regions, and reduce the proportion of federal employees in the National Capital Region. It was also expected that the integration of the CPP and Old Age Security systems would achieve substantial efficiencies in operations (approximately $15 to $20 million annually in 1984-85 dollars).

4.98 These objectives have not yet been fully achieved. This is due in part to successive governments cancelling and rescheduling the planned initiatives in 1979, 1982 and 1984 (see photo page). Moreover, the Branch, in ensuring that its primary objective of providing a high level of service to the public is met, has been cautious about undertaking too many operational changes at the same time. In addition, during the initial stages, there were some difficulties in getting the project started, because of an underestimation of the magnitude and complexity of the initiatives.

4.99 To date:

Client service centre operations have been fully integrated.


RELOCATION
INFORMATION
RENSEIGNEMENTS
SUR LA
RELOCALISATION

Cape Breton Post

Post, Saturday, November 10, 1984

Office Move Is Off

It's official — the relocation of a federal pension office from Halifax to Sydney is off.

The minister of health and welfare, Jake Epp, announced Friday that in light of Ottawa's new cost-cutting plan, the Income Security Programs regional office will stay in Halifax.

The decision affects about 75 people who have been undergoing training in Sydney to take over the jobs on Jan. 1. Contracts had already been let for an $11-million federal building to house the Sydney office.

Epp said his department will try to help the people who have been getting ready to take the jobs. The office administers the Canada Pension Plan, family allowances and old-age security programs for Nova Scotians.

This photograph was taken in October 1984 at the Halifax Regional Office of the Income Security Programs Branch, which was being relocated to Sydney. Less than a month later, the move was cancelled by the government - the second time in five years.

At that time, some 30 persons had been trained for positions in Sydney, and the Department of Public Works had called for tenders on a new $10 million building in which ISPB was to be a major tenant. Most permanent staff in Halifax had found jobs elsewhere, and temporary staff were running the Office.

Since then, individuals trained for Sydney were offered alternative jobs in Sydney, Halifax and Chatham, Ontario.

We estimate the total cost of this cancellation (including training expenses and rental of temporary office space) at $1.5 million.

- CPP benefit processing operations have been decentralized on time and under budget.
- Of the four planned relocations of the regional offices, one was completed in 1985 (Timmins); two are under way (Chatham and Peterborough); and one has been cancelled (Sydney).
- Integration of CPP and Old Age Security benefit payment systems, expected to achieve significant savings in operating costs, is still in the initial stages and is now targeted for completion in the mid-1990s, more than 10 years later than originally scheduled.

4.100 Total decentralization and relocation costs incurred by the Branch to date are approximately $15 million. The estimated cost to complete these initiatives is at least $30 million.

Systems as They Exist Today

4.101 We examined the systems and processes for providing information, service and advice to the public, determining and paying benefits, maintaining records and dealing with appeals. We also reviewed financial and EDP systems and the role and relationships of all departments involved in the benefit delivery process. We followed up on past audit observations and reviewed management initiatives currently under way. Our work was carried out in the National Capital Region and at various locations in Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Alberta and British Columbia.

4.102 Present benefit delivery systems work. Benefit cheques are generally delivered on time, and ISPB places great emphasis on providing a high level of service to the public.

4.103 However, ISPB considers that the operational processes and systems themselves are costly, inefficient, limited, outdated and, in some instances, fragile. EDP systems are old, using the technology of the 1960s, and have been extensively modified, and management is concerned that certain systems may be so overpatched that improvements can only be made through a complete systems redesign. There are numerous inefficient manual processes, including application processing, benefit calculations and record keeping.

4.104 Management's concern about the situation is reflected in the numerous studies and reviews that have been undertaken by ISPB over the past several years. In addition to the long-term initiative which is scheduled for completion in the 1990s, ISPB has a significant number of current operational improvement plans under way. The 1984-85 Branch operating plan contained 30 projects. Six have been completed, seven are behind schedule, 14 are progressing with new milestones in 1985-86, and the remaining three have been deferred and included in the long-term initiative.

4.105 We were informed that cut-backs in funds and insufficient staff resources, as well as changes in priorities, have contributed to the delays in some projects. These delays have resulted in some significant improvements not being made to the benefit delivery processes. Moreover, most of these projects did not contain quantified statements of impact on quality of service or productivity or savings to be realized.

4.106 **Service to the public**. Great emphasis is placed on providing courteous and co-operative service to program recipients. Managers also place importance on the reliability and consistency of cheque delivery – to the extent that, in past years, they have exhibited considerable caution in implementing any change that might have affected the process.

4.107 Through a national network of 65 full-time and 240 part-time client service centres, ISPB provides general program information on Old Age Security and CPP for the public and specific account information for clients. In addition, clients can complete applications at service centres with the assistance of program counsellors, have their accounts modified or obtain advice on available program options. Over 20 per cent of the Branch's person-years is devoted to these activities.

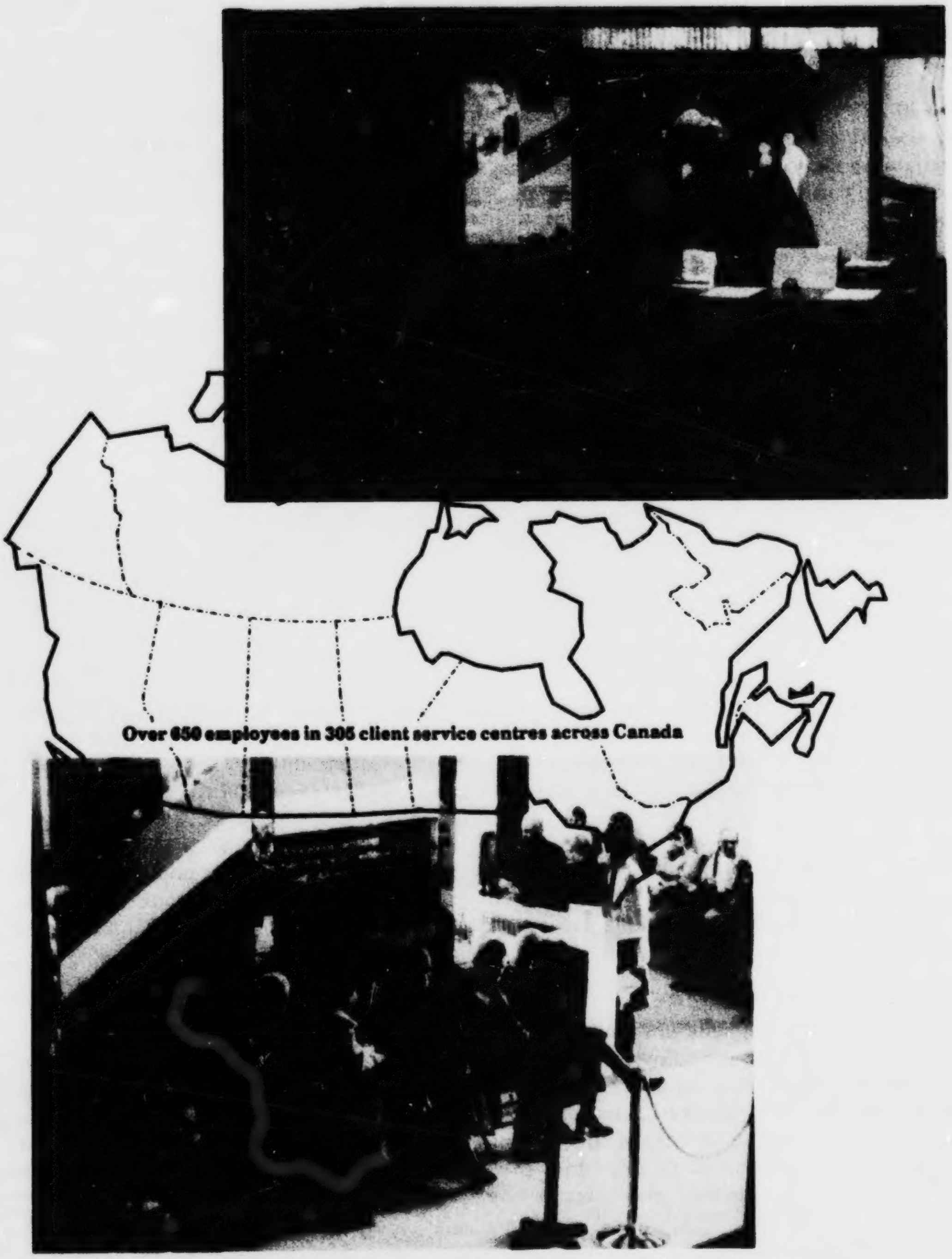
4.108 Regional, area and headquarters managers also use various means of communicating general program information and upcoming program changes. These include cheque inserts, media advertising, communications with federal and provincial legislators, appearances on radio and television and presentations to groups that have direct contact with senior citizens.

4.109 Until recently, surveys of client satisfaction had not been regularly conducted. During 1984, the Branch conducted four major surveys. Although some limited survey work was carried out by the Department as part of program evaluation reviews, the only previous survey specifically dealing with client satisfaction was conducted in 1977.

4.110 We strongly support the efforts of the Branch to improve its understanding of its clientele and their needs. However, we believe there are opportunities to make better use of the survey results. For example, feedback regarding survey results to regional managers has been slow.

4.111 Management has not yet developed a clear definition of what constitutes service to the public, including establishing standards and guidelines for providing service. In addition, the various regional activities have not been adequately costed and the results of surveys have not all been used to assess the effectiveness of the many approaches to service delivery. The absence of this type of evaluation and cost information has made it difficult for management to determine whether the public is being provided with the services it needs in the most cost-effective way.

4.112 An example is the problem of telephone access to client service centres, particularly around cheque delivery time. It is clear from survey results that clients encounter difficulty in contacting the client service centres by telephone. One of the 1984 surveys indicated that 55 per cent of telephone callers make an average of three or more


Over 650 employees in 305 client service centres across Canada

Client service is based on direct personal contact using an extensive network of offices. Volume of work in these offices fluctuates significantly (see paragraph 4.107).

calls before being answered. The problem was first identified in the 1977 survey and, from current survey results, the problem appears to be getting worse. At cheque delivery times the number of incoming calls is significantly higher. This is a major problem since 75 per cent of all client contacts are by telephone.

4.113 In one case, during the last GIS renewal period in early 1985, the client service centre in Montreal lost 22,000 telephone calls in one day. Although the Branch is now directing considerable attention to this problem, it has not yet developed a comprehensive action plan for the short term.

4.114 **Performance measurement systems**. ISPB's performance measurement systems cover the work of people representing approximately 2,800 person-years. These people are engaged in clerical work, administration, counselling, benefit delivery and other related operations. Many of these operations are repetitive and are amenable to development of measures.

4.115 In operations such as these, performance measurement systems are essential to measuring levels of productivity and quality of service, as well as providing a basis for proper allocation of resources.

4.116 This audit represents our fourth assessment of these systems in the last eight years and the fourth time we have expressed concern about the ability of the systems to measure program performance properly. Our primary concern with the Branch's performance measurement system is that it does not measure labour productivity adequately and thus cannot be used to improve efficiency.

4.117 The existing national system was developed in the early 1970s in response to a Treasury Board initiative to have departments support budget submissions with performance data; it has basically remained unchanged. Because it does not provide operating managers with accurate indications of short-term performance fluctuations and representative work measures, regional operating managers have developed their own systems. However, as pointed out in prior years, these systems are inconsistent among regions, not documented, and have different measurement standards.

4.118 Example 2 illustrates a situation where techniques different from those used in the present national system were used, with dramatically different results, to measure labour productivity in Old Age Security regional processing units.

Example 2

Old Age Security

Labour Productivity Reviews of Regional Processing Units

4.119 The Old Age Security regional processing units carry out activities that are essentially clerical and repetitive in nature. They include opening new accounts, updating or closing existing accounts and keying data into computer terminals.

4.120 During our 1982 comprehensive audit of the Branch, we carried out a test of 1981 labour productivity levels in the Ontario Regional Office's Old Age Security processing units. Our tests, based on engineered time standards, revealed an efficiency level of 71 per cent (we regard performance above 80 per cent as evidence of due regard for efficiency).

4.121 In *March* 1984, in order to have a basis for determining allocation of workload capacity among the four new regional offices, and because of management concern that some clerical employees were underused, the Ontario Regional Office carried out its own labour productivity tests, based on standards established after carrying out a work simplification study. These tests indicated a potential overstaffing of up to 30 people in these same processing units (which employ 125 persons in total).

4.122 Some savings were realized when the Timmins office came into operation, and it is expected that additional amounts may be realized when the other Ontario regional offices come into operation.

4.123 The Branch's performance measurement system, in both 1981 and 1984, indicated that productivity in this area was considerably higher than the base period against which it was measured.

4.124 Based on these studies and our observations of similar activities in other regional offices, we believe that annual savings of up to $4 million in this area are possible through improved staff use. These estimates are based on our 1982 work, the results of which are considerably more conservative than the results of the 1984 Ontario Regional Office tests.

4.125 It should be emphasized that these amounts are inclusive of, not in addition to, the estimated savings that are to be realized when upgraded systems are introduced in the 1990s. They do illustrate the fact, however, that labour productivity, even within existing systems can be significantly improved.

4.126 In addition, the Branch's performance measurement systems and its quality-of-service indicators do not cover other important aspects of the Branch's work. Existing measures relate primarily to the processing and cheque delivery aspects of service, including turnaround times and error rates. Moreover, the systems provide only limited feedback with respect to telephone access, an important aspect of service, and on the extent and usefulness of the many different approaches taken by the Branch to communicate with clients.

4.127 Using data from the national performance measurement system, we were only able to account for approximately 40 per cent of the staff time used in client service centres in terms of productive activities. We believe this estimate of low staff utilization reflects the fact that not all client service activities are reflected in the measurement system. It also reflects the wide distribution of staff throughout Canada and the significant peaks and valleys of demand for client services (see photo).

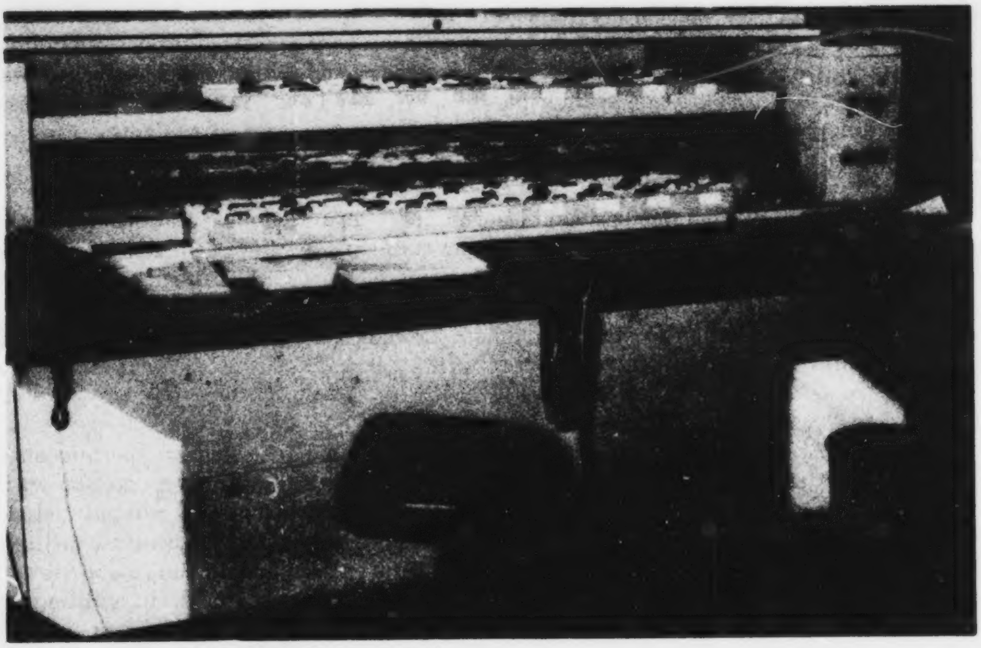
4.128 A Branch project to make substantial changes to the performance measurement systems was undertaken in 1982; it is not scheduled for implementation until April 1986. As proposed at present, even after implementation, the systems will not include a sound basis for determining efficient staffing levels. The Branch plans to continue using a base year for comparison purposes. We consider this to be particularly unsuitable in view of the many operational changes that have been introduced and are planned. In addition, at the time of our audit, work measurement techniques were not being used to develop standards, and management indicated it had no intention of using them.

4.129 Given that we first reported on this in 1978, we consider that eight years is an unreasonable length of time to introduce improvements to such a critical component of the Branch's operations.

4.130 **Delivery processes**. In 1982, we reported that there was no formal process for ensuring that processing improvements in one program or region were implemented nationally. As a result, there were significant inconsistencies in delivery processes, and opportunities to improve productivity were being lost.

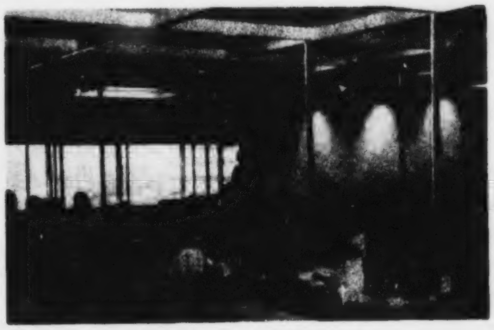
4.131 In 1983, Uniformity Committees, composed of regional, area and headquarters personnel, were formed to address variations in processes and operations. Another committee, for OAS, was formed in January 1985. At the time of our audit, few significant improvements had yet resulted, except for issuing and distributing a CPP operating manual.

4.132 The Alpha index (see Example 3) illustrates a process that is inconsistently applied and inefficient.



Tub files are used for 40% of account volume.

File trays are used for 25% of accounts.



Computers handle the balance

Obsolete methods are used for 65% of the accounts in the alpha index systems shown above, which are designed to prevent duplication in Old Age Security accounts.

Example 3

Old Age Security

Inconsistent Implementation of Productivity Improvements

An Example: The Alpha Index

4.133 There are significant variations in processing methods among regions and among programs within the same region. One example is the application of computer technology to the alpha index. The index, which is an alphabetical list of accounts, serves as the primary control in preventing the processing of duplicate accounts in the Old Age Security program.

4.134 In 9 of the 11 regional offices, this index consists of manual or hard-copy control cards. The use of trays and rotary card (tub) files, as illustrated, results in excessive staff time and space; moreover, access to the cards is poorly controlled. Only now is a computerized index for the Old Age Security program being tested in the Toronto and Timmins Regional Offices.

4.135 **Potential for fraudulent and unauthorized benefit payments**. This Office and the Internal Audit Directorate of the Department of National Health and Welfare have made numerous observations over the last six years about the potential for fraudulent and unauthorized benefit payments in the Old Age Security and CPP programs. These concerns have arisen because of EDP system weaknesses, numerous manual procedures, lack of adequate procedures for verifying applications and continuing eligibility, and inconsistent application of controls among regions. We have also expressed concern, as has Internal Audit, about the delays in correcting system weaknesses.

4.136 In 1982, ISPB set up an audit committee to ensure that all internal and external audit observations were adequately dealt with. It also expanded the terms of reference of national and regional benefit control units to include analysing the causes of, and developing preventive measures for, benefit overpayments. In 1983, the Branch initiated a major study to determine the nature and extent of erroneous and fraudulent payments made under the income security programs. The study was completed in September 1984. It concluded that the amount of possible erroneous payments during 1983 on a percentage basis was extremely low: 0.09 per cent to 0.22 per cent of total benefit payments. However, the study pointed out that the payment base was so large that the monetary value of these errors was nonetheless considerable: $29.3 million to $76.0 million for the Old Age Security and Canada Pension Plan programs.

4.137 The study went on to say that there was ample justification for strengthening control measures in the areas of error/fraud detection, correction and prevention. The Branch is reviewing the study's observations and recommendations, which closely parallel previous audit findings, and is seeking additional resources for this area.

4.138 Although an organization is now in place, through the Branch audit and uniformity committees to address improvements in benefit controls, we remain concerned about the length of time taken to implement the audit recommendations. The following illustrate our concerns:

- A routine ISPB check of Old Age Security applications in August 1983 at the Quebec Regional Office (independent of the study referred to above) resulted in an investigation that disclosed frauds involving approximately $250,000, comprising payments to 21 fictitious individuals over a period of five years. As a result of this discovery, the regional benefit control unit intensified its efforts to identify and follow up suspicious overpayments. During the period May to October 1984, the unit followed up on 109 such cases, 50 of which have been classified as potential fraud cases. In three of these cases alone, recovery of overpayments has amounted to $100,000. Management informed us that the benefit control units in the other regional offices have not been as actively involved in detection work, but rather their efforts have been directed to routine processing activities. The Quebec experience, however, leads to a conclusion that there might be potential for significant savings if more active investigation for fraudulent or erroneous payments were carried out in other regions.

  As part of our audit tests, we used specific computer-assisted audit techniques to match certain information between OAS, GIS and CPP files, Social Insurance Numbers master file and CPP files, and between programs and certain regional offices. These tests identified over 8,200 accounts with overpayments and potential overpayments. Of the 8,200 accounts, we tested 280 accounts which revealed 35 accounts in error and which may result in recovery of over $65,000 in overpayments. The balance of the accounts has been turned over to the Branch for further follow-up and investigation.

4.139 The use by ISPB of similar computer audit techniques, which are neither costly nor time-consuming to carry out, and more effective use of the benefit control units would significantly reduce the potential for erroneous and fraudulent payments being undetected.

4.140 **Conclusion**. Our comments and the illustrations we have used are well known by ISPB. The concern and depth of understanding of the problems are clearly supported by the numerous studies and reviews that have been done by the Branch. What concerns us, however, is the length of time taken to address the problems. In some instances, management has taken swift and immediate action to improve program administration, such as in the CPP disability operations (See Example 4). However, in many other areas, action has been very slow.

Example 4

Canada Pension Plan

Inadequate Management of Disability Operations

4.141 This example illustrates both significant problems in managing a major portion of CPP activities and the improvements that resulted in a very short time when senior management took action in January 1985 to correct the situation.

4.142 Under the Canada Pension Plan, pensions are provided to contributors who become disabled before age 65. The pension is equal to approximately 95 per cent of the calculated retirement pension. During 1984-85, the Plan paid almost $800 million in disability benefits to 166,000 individuals. The process for reviewing and approving benefits and hearing appeals is much more complex than the process for CPP and OAS retirement benefits. All applications for benefits (about 50,000 in 1984-85) are reviewed by a staff of 86 in Ottawa, including 30 medical and nursing officers.

4.143 We found that there were virtually no written policies, procedures or directives for reviewing and processing applications, entitlements and appeals, and for establishing boundaries within which medical decisions were made.

At the time of our audit, in December 1984, it took 90 days to complete the processing of an initial application for a CPP Disability Pension and up to two years to process appeals

Very little information about the program was being disseminated to the public, particularly the medical profession. Client service centres, usually the initial contact point for disabled applicants, were having considerable difficulty in informing individuals of the status of their applications. There were no really useful procedures for measuring and reporting productivity and level of service. This, together with the disruption caused by an attempted decentralization of activities and a situation that allowed virtually no delegation of responsibility, had created an extremely unsatisfactory situation. At the time of our audit in December 1984:

- it was taking an average of 90 days to process an initial application;
- 38 per cent of the rejected initial applications were being appealed, the majority successfully; and
- it was taking from 75 days to up to two years to process appeals.

4.144 In January 1985, senior management began to take major steps to correct many of the deficiencies. Key among these efforts were:

- putting in place procedures to clear backlogs in processing applications;
- improving communications with client service centres; and
- undertaking studies to improve work flow at all levels and to measure performance.

4.145 At the conclusion of our audit, it was too early to assess the full extent of these improvements. But they appear to be substantive.

4.146 We fully recognize the conditions under which the Branch must operate. These include the enormous size of its operations, its decentralized organization and management structure, the elderly population it serves, the variety of departmental players involved and the political and other outside pressures to which it is subjected.

4.147 We also recognize that these operational conditions make it difficult to achieve rapid change. Nonetheless, we feel the length of time taken to address these problems has been unreasonable. We also recognize that the Branch has a long-term project under way to improve its delivery systems, as described below. However, in our opinion, the Branch needs, in addition, to undertake a program to address those areas where immediate productivity improvements can be made, to address those areas where benefit overpayments are occurring, to implement audit recommendations promptly and to develop milestones to ensure these improvements are implemented.

4.148 The Department of National Health and Welfare should make concerted and immediate efforts to implement productivity improvements and to strengthen financial controls in its existing benefit delivery systems.

> Department's response: *Productivity improvements will only be introduced after appropriate studies have been conducted as to their suitability in the short term and in the longer term in the light of planned major systems and organizational enhancements, their impact on the quality and efficiency of service being delivered to our beneficiary population and the impact on Income Security Programs employees.*
>
> *The development and implementation of strong financial and internal controls are an integral part of the new systems being planned by Income Security Programs development. The Department has initiated steps to ensure the strengthening of the financial controls in these systems.*

Future Plans to Improve Delivery Systems

4.149 In 1984, the Income Security Programs Branch gave increased impetus to updating, integrating, improving and incorporating technological advances in its delivery systems. A general systems design and organization plan were scheduled to be submitted to Treasury Board in June 1985. Total cost for the project, which is scheduled to begin implementation in the 1990s, has been estimated at $70 million. Currently, some 20 people are involved, with an estimated 130 to be added as the project develops. ISPB plans to fund the project through efficiency gains.

4.150 Present plans call for annual monitoring and review by Treasury Board Secretariat of the progress of the project. During its first year, the project has generally been on schedule. An interdepartmental steering committee has been established, and all divisions of the Branch are actively involved in the project. Recently, the level of importance of the project has been further raised by the creation of the position of Executive Director, who will have responsibility for systems development, reporting direct to the Assistant Deputy Minister of the Branch.

4.151 These efforts to upgrade the systems are substantial. However, we feel it is important that there be close and continuous monitoring by the Department and Treasury Board Secretariat to ensure that it is completed on time – especially given past experience in attempting to upgrade and integrate the systems.

4.152 There are two important areas that, in our opinion, need to be addressed further.

4.153 **Future client needs.** Following submission of the Branch's proposal to Treasury Board in June 1984, the Board requested the Branch to develop a policy on the type and level of service to be provided. This has not yet been completed. We believe it is an essential prerequisite for designing the delivery process for the future.

4.154 Alternative delivery systems. Although recent surveys of client needs indicate an increase in interest, the project group is not actively considering alternative delivery mechanisms, such as electronic funds transfer (EFT). This technology is widely used by private sector and other government organizations for pension payments, as well as in the United States Social Security System. A private sector source cited an average cost per EFT entry of 60 cents compared with a per-cheque cost of $2.50, thus realizing a 76 per cent cost reduction (this excludes initial conversion and start-up costs). The Department of Supply and Services is running pilot studies on the feasibility of introducing what they term Direct Funds Transfer (DFT) technology in other areas of the government. ISPB, in its redevelopment project, has not been actively pursuing either DFT or EFT as an alternative method of benefit delivery. Rather, it is relying on DSS for initiatives in this area.

4.155 The Department of National Health and Welfare, as part of its long-term plan to upgrade and integrate its income security benefit delivery systems should ensure that it:

- **develops a policy on the type and level of service to be offered, based on its understanding of client needs; and**
- **actively pursues the use of alternative payment systems such as electronic funds transfer.**

Department's response: The need for the development of a formal policy on the type and level of service to be offered by Income Security Programs has been recognized for some time. The foundation for the development of the policy was prepared in mid-1984 when senior branch management met and formalized the "Mission of the Income Security Programs Branch" and the "Set of Values" under which it would carry out this mission. These products were subsequently reviewed with all Income Security Program employees. Further work is under way in a planned and organized way to further define in detail the types, level and standards of service to be provided and the systems and organization through which it will be delivered.

Income Security Programs Branch is actively pursuing alternative payment systems for the delivery of our benefits and services.

Administration Costs

4.156 Total costs of administering the Old Age Security program and the Canada Pension Plan in 1984-85 were about $65 million and $100 million respectively. Exhibit 4.8 shows a breakdown of these costs. ISPB has overall responsibility for reviewing and controlling them.

4.157 We reviewed the process for determining, budgeting, recording, monitoring and reporting these costs within the Department of National Health and Welfare. With respect to CPP, we also reviewed both how other departments allocated their costs to CPP and the work of internal audit in reviewing the costs.

Exhibit 4.8

ESTIMATED TOTAL ADMINISTRATION COSTS
1984-85
(millions of dollars)

	Old Age Security	Canada Pension Plan
Collection of Contributions	$ -	$ 45.0
Client Services and Benefit Distribution	47.9	37.9
Cheque Issue and Computer Services	12.3 *	12.5
Accommodation	4.1 *	2.8
Other	1.1 *	1.8
	$ 65.4	$ 100.0
Number of Beneficiaries	2,631,000	1,681,000
Number of Cheques	31,173,000	18,222,000
Total Cost/Beneficiary	$ 24.88	$ 32.72 **
Total Cost/Cheque	$ 2.10	$ 3.02 **

* NHW has not quantified these costs

** Excluding cost of collecting contributions

Financial Reporting Systems

4.158 In our opinion, ISPB does not have the proper mechanisms in place to identify, monitor, control and report costs incurred by it and other departments in running the Old Age Security and CPP programs. The reasons for this are:

- Existing cost accounting systems in ISPB do not permit a detailed allocation of costs incurred by ISPB between two of the three programs (Old Age Security and Family Allowances) it administers.
- Memoranda of understanding between ISPB and other departments providing administrative services do not exist for all departments and, in some instances, do not contain guidelines for quality and level of service or make provision for automatic periodic review of the basis of charges.
- ISPB does not use simple measures such as cost per cheque or cost per account, commonly used by both government and private sector organizations, to monitor costs and operational efficiency of similar activities.

4.159 **The Department of National Health and Welfare should ensure that there is an effective process in place to account for, monitor and report administration costs of the Old Age Security and Canada Pension Plan programs. In**

addition to establishing appropriate financial reporting systems, the Department should ensure that:

- **roles and responsibilities for administrative cost control are clearly established; and**

- **written agreements are established with all departments providing administrative services that specify the nature and level of services to be rendered, the basis for costs to be included in the charges for these services and the performance indicators to be used in measuring their quality.**

Department's response: The Department accounts for, monitors and reports the administrative costs of the Canada Pension Plan separate from other program costs. The administrative costs of the Old Age Security and Family Allowance programs are not currently identified separately. Consideration will be given to such a separation in the design of the new financial reporting system presently under development. The roles and responsibilities for cost control will be reviewed to ensure that they are appropriate.

A comprehensive review of CPP Administrative costs is under way. When the recommendations emanating from the study have been approved, it is intended to negotiate written memoranda of agreement with the participating departments.

Independent Scrutiny of Canada Pension Plan Administration Costs

4.160 The Canada Pension Plan legislation prescribes the charging of administration costs to the Plan as follows:

> There shall be paid out of the Consolidated Revenue Fund and charged to the Canada Pension Plan Account ... the costs of administration of this Act, under the authority of Parliament.

4.161 These costs are estimated annually by participating departments, reviewed by ISPB, and recovered monthly from the Canada Pension Plan. At year end, adjustments are made to reflect actual costs. These costs are reviewed by the Comptroller, CPP, and are subject to audit by the Internal Audit Directorate of the Department of National Health and Welfare.

4.162 When the Plan was established in 1965, the government recognized the need for an independent scrutiny of these costs and for addressing potential conflicts of interest. An interdepartmental committee on CPP administration costs was established, Treasury Board issued guidelines for the recovery of costs by participating departments, and the Department of National Health and Welfare was given the authority "to review and audit all charges by any other department to the Canada Pension Plan Account for administrative services."

4.163 Although these procedures may have been sufficient at that time, the present practices, in our opinion, do not provide for an adequate independent challenge and review of CPP administration costs. The reasons for this are:

- The interdepartmental committee on CPP administrative costs was disbanded in 1976. Since then, there has been no formal or regular communication among departments on the administration of CPP.
- Although there have been significant changes in the organization and operation of CPP over the years, methods for cost recovery have not been reviewed and modified, as required by Treasury Board, since 1974. As a result, the policy for determining what costs should be charged to CPP, and on what basis they should be charged, is unclear.
- Costs are recovered by participating departments from CPP through a process known as vote-netting. The government discontinued this practice for the most part in other programs several years ago because it allowed departments to make expenditures beyond the amount approved by Parliament.
- Treasury Board has little involvement in reviewing and challenging these cost recoveries as part of its program expenditure analysis. Administration costs to be charged to CPP by participating departments are reviewed by separate groups and different analysts within the Treasury Board Secretariat. No one person looks at the total picture from the CPP point of view. Furthermore, departmental charges over and above the original estimates are not reviewed and approved by the Treasury Board.
- Although the Internal Audit Directorate of National Health and Welfare has been successful in identifying overpayments and areas for improving financial controls on behalf of CPP, departments have not always implemented its recommendations (See Example 5).

4.164 In 1982, the position of Comptroller, CPP, was created; the principal duties focus on challenging and reviewing administration costs. Since then, the Comptroller has significantly improved controls over administration costs. However, his present reporting relationship to the Director, Financial Administration, ISPB, does not fully provide the arm's-length relationship necessary for an independent and effective control of administration costs incurred by ISPB. These costs represent approximately one-third of total CPP administration costs.

4.165 These concerns, together with our earlier comments concerning inadequate cost accounting systems, have created a situation where the costs of running a multi-billion dollar program are being incurred without adequate review by government or by Parliament.

4.166 The Department of National Health and Welfare, Treasury Board Secretariat and other participating departments have been aware of many of these inadequacies for some time. In September 1984, the Deputy Minister of National Health and Welfare wrote to Treasury Board Secretariat requesting a comprehensive, independent review of current policies and practices regarding recoveries of administrative costs from CPP. He said:

> Following the enactment of the Canada Pension Plan (CPP) in 1965 the Treasury Board issued a policy letter specifying certain guidelines for the recovery of the costs incurred by various departments in administering the Plan. These guidelines were not intended to cover all aspects of the CPP Administration and they were expected to be modified over time. Over the years, piecemeal changes have been made to the original practices on a department to department basis. However, while each of these changes may have made sense at the time, the result is that there are now significant differences in the cost recovery methods and underlying principles used by the various departments. There is, in my opinion, a strong possibility that the CPP is presently being overcharged, thereby subsidizing federal government operations.

4.167 Treasury Board Secretariat approved the request in October 1984, and a task force to examine cost policies began work in April 1985. It expects to report its findings in early 1986. However, even though this study is now under way, Example 5 illustrates the problems in achieving more equitable cost allocation on a short-term basis.

Example 5

Canada Pension Plan

Administration Costs

Inappropriate Cost-sharing Formula

4.168 The following illustrates some of the disparities associated with one of the CPP cost-sharing formulas and the delays involved in resolving the problem.

4.169 The Department of National Revenue-Taxation collects CPP contributions from employers and employees. In 1984-85, it recovered from CPP $46 million for this service, close to one-half of total CPP administration costs. The amount of recovery is based on a formula approved by the Treasury Board in 1974.

4.170 The Internal Audit Directorate of National Health and Welfare began raising concerns about the adequacy of the formula in 1978. Since then, the Departments of National Health and Welfare and National Revenue have been maintaining the current formula and considering more appropriate alternatives.

4.171 A comparison was made which showed that in 1982-83 the cost recovered by NR-T from CPP to collect each $100 was $1.27, almost three times the amount charged by NR-T to the Canada Employment and Immigration Commission (CEIC) for collecting unemployment insurance premiums ($0.44 per $100). This difference is caused in part by the methods used by NR-T in calculating cost recoveries: CEIC is charged based on cost per account and CPP is charged on the proportion of CPP revenues to total NR-T revenues.

4.172 In September 1984, at the same time that a proposal for a comprehensive review of the administrative costing policies and practices for CPP was submitted, NH&W proposed to Treasury Board an interim formula that stood to reduce the charge to CPP by NR-T by about $30 million over the next three years. The Department felt that the situation required immediate attention.

4.173 In October 1984, Treasury Board Secretariat refused to recommend the proposal to the Board on the grounds that the planned comprehensive review should be completed first.

4.174 In November 1984, National Health and Welfare reiterated its concerns for immediate action in view of the fact that implementation of any changes from the review could take as long as three years.

4.175 In April, 1985, Treasury Board Secretariat again turned down the request, stating:

> ... it is uncertain whether an arbitrarily chosen level of recoveries from the Canada Pension Plan is any more desirable than that based upon the formula which is currently under review. You may be assured that the Treasury Board Secretariat shares the concerns which are evident in your letters about the possibility of greater recoveries from the Canada Pension Plan than may be warranted. We would, however, find it difficult to recommend your submission to Treasury Board Ministers at this time because the submission in effect proposes a change to the basis of recoveries from the CPP at the very time that a comprehensive review of those recoveries is under way.

4.176 As of May 1985, no further developments had occurred.

Public Awareness

4.177 As stated earlier, public pensions, on average, represent almost 50 per cent of the income of the elderly. Given this and the fact that not all programs are targeted against specific levels of income, individuals who are expected to provide adequately for their retirement must know the extent to which public pensions will supplement income from private savings and employer sponsored plans.

4.178 In addition, given our earlier comments concerning the need to clearly define the type and level of service provided to clients now and in the future, we feel that the Department of National Health and Welfare should give consideration to a public education program which explains what each type of pension is currently designed to accomplish and not to accomplish, and how public and private pensions fit together.

4.179 This could cover programs and levels of benefits available, eligibility requirements, advice on tax and retirement income planning, and available services such as direct deposit and tax deducted at source. An example of this kind of information program is the semi-annual bulletin entitled "Pension News" published by the Quebec Pension Plan and inserted in daily newspapers.

4.180 We see this as an extension of the type of information which should be in Part III of the Estimates for Parliament. That is, it serves accountability of the programs in its broadest sense, through disclosure of what it is intended to accomplish.

4.181 In April 1985, the Department began a four year program of mailing out 13 million statements telling individuals about the status of their Canada Pension Plan program and informing them of potential benefits to which they are entitled. We consider this to be an excellent start in informing the public and believe that the Department should expand its efforts to other programs.

4.182 **The Department of National Health and Welfare should introduce better public disclosure and education programs on all federal public pensions and their role in the retirement income system.**

> *Department's response: The Department supports the Auditor General's recommendation that Health and Welfare Canada should introduce better public disclosure and education programs on the federal public pension programs which it administers and their role in the overall retirement income system. This need was recognized some time ago and steps are being taken to address it. The Canada Pension Plan Contributor Information Program introduced in the spring of 1985 is a part of the process and this fall other initiatives will be tested.*

MIXED AND JOINT ENTERPRISES

MIXED AND JOINT ENTERPRISES

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5

MIXED AND JOINT ENTERPRISES

Introduction

5.1 In addition to being the sole owner of Crown corporations, the federal government shares in the ownership of a number of corporations with other participants. This study dealt specifically with mixed and joint enterprises. These are corporations with share capital in which the federal government has a direct equity position together with private sector participants or with other governments in order to further common objectives. Our study focused on the adequacy of information available to Parliament with respect to such corporations.

5.2 Where ownership is shared with the private sector (such as in the case of the Canada Development Corporation or the Cooperative Energy Corporation), the corporations are referred to as "mixed" enterprises. "Joint" enterprises are those in which ownership is shared with other governments (for example, the Lower Churchill Development Corporation Limited or Société Inter-Port de Québec).

5.3 The report of the President of the Treasury Board on the government's corporate interests (*Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada, 1983-84*), tabled in June 1985, lists a total of 24 mixed and joint enterprises at 31 December 1984. We identified one additional mixed enterprise (National Sea Products Limited) during the course of the study. However, 12 of the corporations on the Treasury Board's list are corporations in which the Superintendent of Bankruptcy has received shares under the terms of the Bankruptcy Act. They are not corporations where the government's purpose in sharing ownership with other participants is to further common operating objectives. Accordingly, these 12 corporations were excluded from this study. The other 13 corporations, with which this study was concerned (see Exhibit 5.1), had total assets of about $8.7 billion and liabilities of about $7.1 billion in 1984.

5.4 Previous Auditor General's Reports have raised the topic of mixed and joint enterprise corporations. In 1979, we concluded in view of the investment in such corporations that a government study of their control and accountability was long overdue. Our 1982 Report recommended that "Parliament should give attention to issues surrounding the control and accountability of those mixed and joint enterprises...in which the Crown is a shareholder". In 1984, we commented on the passage of Bill C-24 – an act that amended the Financial Administration Act in relation to the control of Crown corporations. At that time we pointed out that Bill C-24 did not address - and was not intended to address - issues surrounding the control and accountability of mixed and joint enterprises, and that an appropriate accountability framework for them remained to be considered by Parliament.

5.5 Issues relating to the accountability of mixed and joint enterprises have tended to be overshadowed during recent years by the more compelling and immediate concerns with respect to Crown corporations. The amendments to the Financial Administration Act which became effective in September 1984 were designed to address many of those concerns. Therefore, continuing now with a consideration of mixed and joint enterprises would complement the initiatives already taken with respect to Crown corporations.

Exhibit 5.1

Newfoundland and Labrador Development Corporation Limited

canarctic

TeleSat
Télésat Canada

CDC
corporation de développement du canada

COOPERATIVE ENERGY CORPORATION

NSHOLDCO LIMITED

LOWER CHURCHILL DEVELOPMENT CORPORATION

National Sea Products Limited

Société Inter-Port de Québec

Nanisivik Mines Ltd.

North Portage

Mohawk St. Régis Lacrosse Ltée.

125459 Canada Limited

Corporations included in this study. (see Paragraph 5.3)

5.6 A consideration by the government of the full range of issues involved in the accountability of mixed and joint enterprises would be especially timely in light of the government's announced intention to privatize a number of Crown corporations, including, for example, Canadian Arsenals Limited, Teleglobe Canada and Canadair Limited. Experience in other countries and jurisdictions shows that the privatization process can result in governments retaining some ownership interest in privatized corporations either permanently or during a transitional period - thereby creating new mixed or joint enterprises.

Purpose

5.7 Whereas Crown corporations are ultimately accountable to Parliament through the appropriate minister under the Financial Administration Act, there is no legislation defining such a relationship with respect to mixed and joint enterprise corporations. Such corporations act through directors and officers who, under most companies legislation, must act in the best interests of the corporation. As such, they act in the best interests of all shareholders, including the federal government, private sector corporations, private individuals or other governments. Nevertheless, the federal government's equity represents an investment of public money on behalf of taxpayers - and it is Parliament that authorizes that investment. As an investor of the public's money and a shareholder in mixed and joint enterprises, the government is accountable to Parliament for equity investments that total over half a billion dollars at cost, the achievement of related public policy objectives and their continued relevance.

5.8 If Parliament is to exercise fully its roles of scrutinizing and authorizing the commitment and expenditure of public funds in relation to mixed and joint enterprises, and holding the government to account for the achievement of associated public policy objectives, it must be provided with appropriate information. Parliament needs to be informed of the purpose, nature and extent of the government's investments in mixed and joint enterprises, of the government's expenditures and of the ongoing operations, financial position and results of such corporations. As well, Parliament should have access to such other information as is necessary to hold the relevant ministers to account for their exercise of the shareholder's rights and responsibilities.

5.9 One of the functions of this Office is to assess accountability information available to the House of Commons for use in its scrutiny of government programs and financial activities. For this reason, our major focus in the study was on the adequacy of the information available to serve the accountability relationship that exists between the government and Parliament with respect to mixed and joint enterprises. In particular, our purpose was to:

- identify and describe the nature and extent of the federal government's involvement in mixed and joint enterprises;
- review and assess the information that is currently available to Parliament with respect to such corporations; and
- review the means by which Parliament receives this information.

Scope

5.10 We adopted the definition of mixed and joint enterprises set out in the annual report on the government's corporate interests, tabled by the President of the Treasury Board in June 1985. That document defines mixed and joint enterprises as "enterprises with share capital owned jointly with other governments and/or other organizations to further common objectives". We also used the list of corporations included in that publication as our starting point.

5.11 Some partially-owned corporations that are not directly held by the federal government were excluded from our study. Partially-owned subsidiaries (over 50 per cent and less than 100 per cent owned) or associates (less than 50 per cent owned) of Crown corporations were excluded because these corporations are accountable primarily to their parent corporations. Under the Financial Administration Act, parent Crown corporations are accountable through the appropriate minister to Parliament for, among other things, their investments in subsidiaries and associates. Accordingly, for the purposes of this study we concluded that arrangements made for the accountability of partially-owned subsidiaries and associates have the potential to address this issue.

5.12 Also excluded was a group of organizations classified as "other entities" in the annual report of the President of the Treasury Board. Although these are organizations for which the Government of Canada has a right to appoint one or more members to the board of directors or similar governing body, the entities have no share capital and thus fell outside the scope of this study.

5.13 Exhibit 5.2 summarizes the structure of the government's corporate interests at 31 December 1984, and identifies in bold print the specific subset to which this study refers.

5.14 We did not attempt to address the issue of the government's management of investments in mixed and joint enterprises. Neither did we address the effectiveness of using the mixed and joint enterprise form in carrying out government policies. Finally, we did not examine the internal operations or procedures of individual corporations.

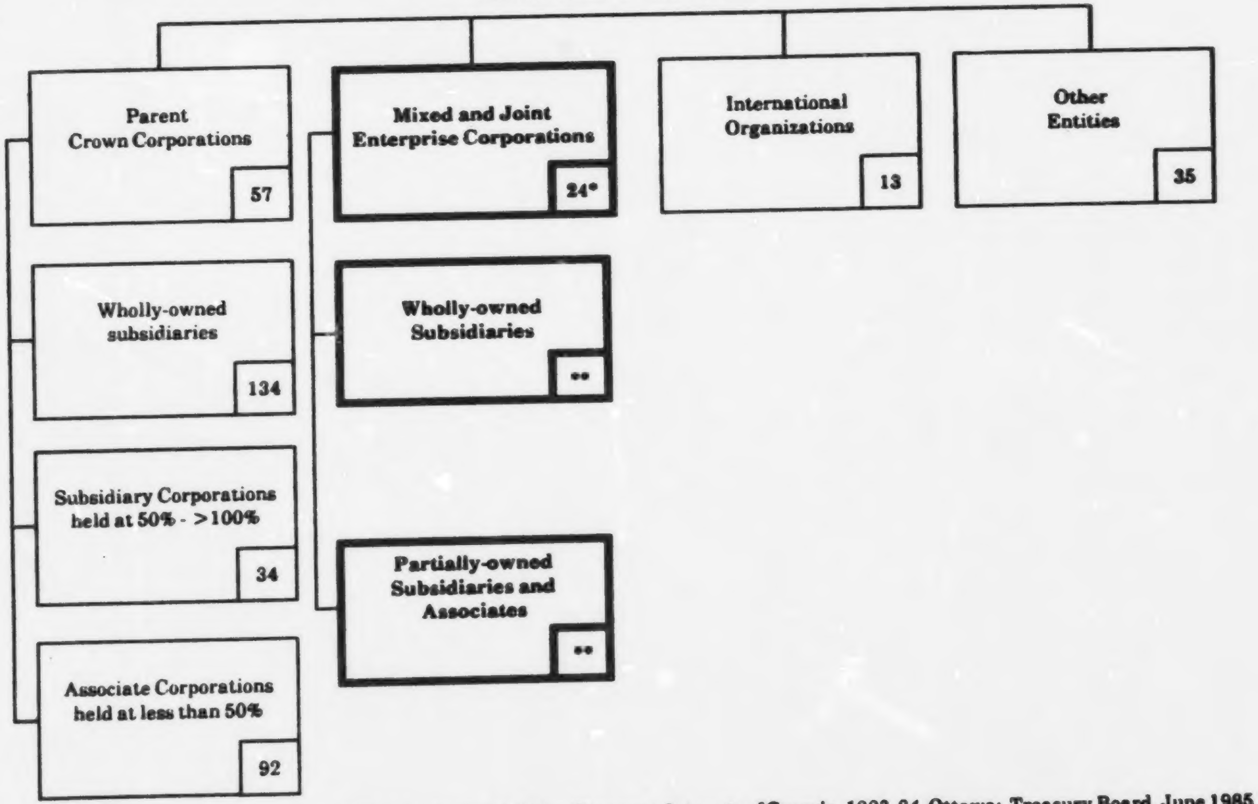
5.15 Because our focus was on the adequacy of information available to Parliament rather than on entity-specific issues, we based our study on information that is in the public domain, including:

- the June 1985 annual report of the President of the Treasury Board, *Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada, 1983-84*, as well as previous reports on the government's corporate interests published by Treasury Board Secretariat;
- the annual reports of mixed and joint enterprise corporations;
- the Public Accounts;
- the Estimates;
- legal authorities, such as enabling legislation;
- reports of previous studies dealing in whole or in part with mixed and joint enterprises; and
- available literature related to the subject.

5.16 As well, we reviewed the ways in which some other countries deal with the accountability of mixed and joint enterprises, with particular regard to the information available to legislative bodies. This was done through literature search and correspondence with the legislative auditors in those countries.

Exhibit 5.2

SCHEMATIC SUMMARY OF THE GOVERNMENT'S CORPORATE INTERESTS
AS AT 31 DECEMBER 1984


Parent Crown Corporations
57
Wholly-owned subsidiaries
134
Subsidiary Corporations held at 50% - >100%
34
Associate Corporations held at less than 50%
92
Mixed and Joint Enterprise Corporations
24*
Wholly-owned Subsidiaries
**
Partially-owned Subsidiaries and Associates
**
International Organizations
13
Other Entities
35

Source: *Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada, 1983-84*, Ottawa: Treasury Board, June 1985

▬ Class of entity covered by the study
* Includes 12 corporations in which the Superintendent of Bankruptcy has received shares under the terms of the Bankruptcy Act
** Above source does not provide these figures

Mixed and Joint Enterprises

Background

General

5.17 From the perspective of the government, mixed and joint enterprises appear to offer both advantages and disadvantages in comparison with other forms of government participation in the economy. The following table summarizes the more important of these.

Mixed Enterprises	**Joint Enterprises**
Advantages:	Advantages:
• less public capital required to achieve public purposes	• makes possible enhanced inter-governmental co-operation
• access to private sector entrepreneurial skills	• spread of fiscal responsibility among governments
• participation by private sector in major economic decisions	• avoidance of constitutional and jurisdictional problems
Disadvantages:	Disadvantages:
• difficulty of limiting government's perceived "moral" liability in the event of default, failure or the need for more capital	• in practice, may be full federal government financial responsibility without full control
• potential for divergence of direction among government and private sector shareholders	• potential for divergence of direction among government shareholders

5.18 The federal government has participated in enterprises with the private sector and other governments since the second decade of this century. The Canadian Farm Loan Board (now the Farm Credit Corporation, a scheduled Crown corporation) was established in 1927 as a mixed enterprise, and the Bank of Canada (now a Crown corporation) was a mixed enterprise between 1936 and 1938. The federal government was involved with the government of Nova Scotia in the Halifax Relief Commission (1917), with the Alberta government in the Eastern Rockies Forest Conservation Board (1948), with the government of British Columbia in the Fraser Valley Dyking Board (1948) and with the Manitoba government in the Greater Winnipeg Dyking Board (1950).

5.19 In the 1960s and early 1970s the federal government set up several mixed enterprises. The largest and best known of these were Panarctic Oils Limited (now a subsidiary of Petro-Canada), Telesat Canada and the Canada Development Corporation.

Panarctic Oils Limited was established in 1966 to explore for oil and gas in the Canadian Arctic Islands. Telesat Canada was created in 1969 to provide telecommunications services between locations in Canada. The Canada Development Corporation was established in 1971 to encourage and maintain the development of Canadian controlled and managed corporations in the private sector and to provide Canadians with new opportunities to invest in the economic development of Canada.

5.20 Between 1972 and 1982, no major mixed enterprises were established by the government. In 1982, the Cooperative Energy Corporation was created to provide the opportunity for a number of co-operatives to participate directly in the Canadian oil and gas industry and thereby to further the government's policy goal of increased Canadian ownership in that industry. In 1983, two holding companies, 125457 Canada Limited (now NSHOLDCO Limited) and 125459 Canada Limited, were set up in the context of restructuring certain fishery enterprises in Atlantic Canada. In particular, this involved National Sea Products Limited in Nova Scotia and Fishery Products International Limited in Newfoundland.

5.21 In so far as the future is concerned, the government has declared its intention of selling all its interest in the Canada Development Corporation. However, there is also the possibility (as noted earlier in this chapter) that new mixed or joint enterprises may be created, either permanently or temporarily, as a result of privatization involving corporations now owned wholly by the government.

Previous Reviews

5.22 In addition to our annual Reports, some other major reviews focusing on Crown corporations during the last eight years have also touched on the accountability of mixed and joint enterprises.

5.23 **The Lambert Commission.** The Lambert Royal Commission on Financial Management and Accountability conducted a broad inquiry into the best means of providing effective financial management and accountability in the federal administration, including departments, Crown corporations, mixed and joint enterprises (referred to by the Commission as "shared" enterprises) and quasi-public entities.

5.24 The Commission's Final Report in 1979 included the observation that the links between such corporations and the government and Parliament were subject to the various provisions of specific constituent acts or federal or provincial corporate law, and concluded that the situation was unsatisfactory. In particular, the Report noted that the limits of government activity were not clearly defined and no means existed for ensuring that all corporations in which the government was a direct participant were accountable, in some appropriate way, to the government and Parliament.

5.25 As far as information to Parliament was concerned, the Commission recommended that provision be made for appropriate reporting and disclosure. In this regard, the Commission concluded that:

- Shared enterprises, together with their subsidiaries, should be listed for identification purposes in the schedules of the Financial Administration Act.
- The designated minister should be the accountability link between a shared enterprise and Parliament.
- The designated minister should lay the annual report of the corporation before Parliament and, in addition, report to Parliament on any other significant matters on which information would normally be available to shareholders.

5.26 **Public Accounts Committee.** The Standing Committee on Public Accounts has issued a series of reports in recent years that have included recommendations relating to the control, direction and accountability of "government-controlled" corporations. The Committee's Second Report to the House of Commons of 11 April 1978 defined government-controlled corporations as those "in which the Government of Canada either directly or indirectly holds shares, membership interests or other evidence of interest to which are attached more than 50 per cent of the votes that may be cast to elect directors".

5.27 However, as the large majority of the corporations included in our study are not government-controlled in accordance with the Committee's definition, the Committee's observations and recommendations have limited application to the current set of mixed and joint enterprises.

5.28 **Government initiatives.** In 1984, Bill C-24 amended the Financial Administration Act in respect to provisions governing the control and accountability of Crown corporations. Although the main purpose of the amendments was to introduce a new accountability framework for parent Crown corporations and their wholly-owned subsidiaries, some provisions have a potential bearing on the creation or acquisition of directly held mixed and joint enterprises and on information available to Parliament about them. In particular:

- An Act of Parliament is required to authorize the incorporation of a corporation of which any shares would be held by, on behalf of, or in trust for the Crown.
- An Act of Parliament is required to authorize the acquisition of shares in a corporation that, on acquisition, would be held by, on behalf of, or in trust for the Crown.
- The President of the Treasury Board is required to table in Parliament an annual consolidated report which, among other information, is to include a list naming, as of a specified date, all corporations of which any shares are held by, on behalf of, or in trust for the Crown or any Crown corporation.

5.29 A formal government review of mixed and joint enterprises remains to be carried out. In a Green Paper *(Crown Corporations: Direction, Control, Accountability; Government of Canada's Proposals)* produced in 1977, the Government indicated that it was studying the appropriate degree of government control and direction and parliamentary scrutiny over mixed enterprises. It further indicated that legislative proposals might be made at an early stage. The study was not completed, and no legislation dealing specifically with mixed and joint enterprises has been proposed to Parliament.

Profile and Characteristics

Number of Corporations

5.30 Thirteen mixed and joint enterprises held directly by the government were included in our study. Among them, these enterprises have some 80 subsidiaries or associates - most are directly and indirectly held subsidiaries or associates of the Canada Development Corporation.

5.31 Although the number of corporations currently classified as mixed and joint enterprises is relatively small, the list is not static. A corporation's status may change over time and result in its being added to or removed from the list of mixed and joint enterprises. Whereas some corporations were specifically created as mixed or joint enterprises, others existed previously as private sector corporations or were wholly-owned by the government. Similarly, corporations that at one time have been mixed and joint enterprises have subsequently been reclassified, sold or dissolved. Exhibit 5.3 shows this dynamic process.

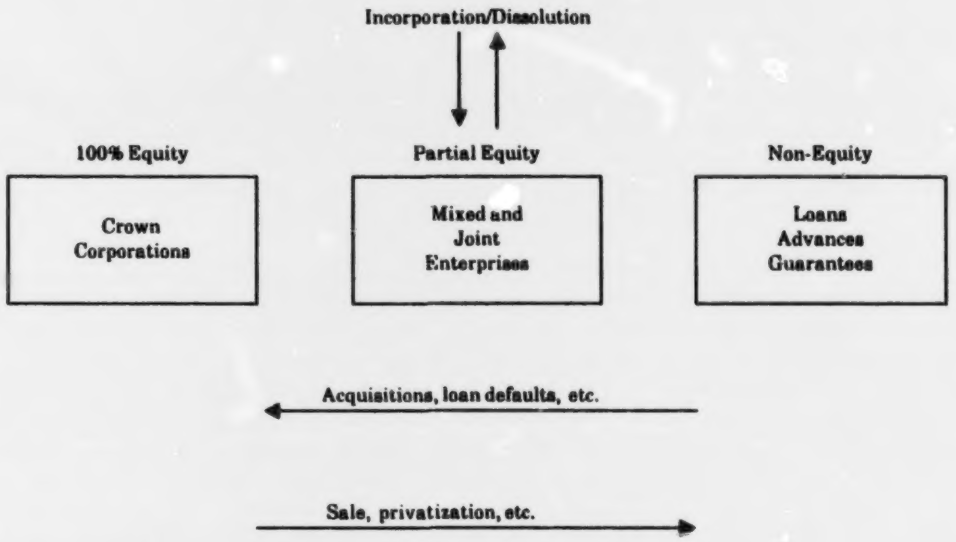
5.32 The government has become involved in mixed and joint enterprises both by setting them up (e.g., Telesat Canada) and by acquiring shares in ongoing corporations through a variety of means such as purchase (e.g., Canarctic Shipping Company, Limited), in return for services provided (e.g., Nanisivik Mines Ltd.), and through loan defaults (e.g., Consolidated Computer Incorporated which was at one time classified as a mixed enterprise and was subsequently sold to a private firm).

5.33 A further means for the government to become a part owner of a corporation arises from privatization of wholly-owned corporations when part of the equity is retained by the government either permanently or during a transition period. Recent privatization of nationalized industries in the United Kingdom has resulted in the creation of several mixed enterprises in this fashion.

5.34 Experience with the Canada Development Corporation illustrates a similar process in Canada. The Canada Development Corporation was created during the 1971-72 fiscal year and Canada held all the shares until the first public offering of its stock in 1975. Since that time, Canada's participation has decreased to about 47 per cent of the voting power and some 83 per cent of the common shares. In May 1985, the government announced its intention to reduce its participation in the corporation significantly and, ultimately, to dispose of all the shares it holds. By 6 September 1985, the government had placed 23 million of its 30.7 million common shares in the Canada Development Corporation by the sale of instalment receipts. Each receipt entitles the holder to acquire one share by making a final payment in a year's time. The government will retain the shares until payment is made. When the sale is completed, the government's participation will have decreased to about 11 per cent of the voting power.

Exhibit 5.3

MODEL OF GOVERNMENT INVESTMENT IN CORPORATIONS


Incorporation/Dissolution
100% Equity
Partial Equity
Non-Equity
Crown Corporations
Mixed and Joint Enterprises
Loans Advances Guarantees
Acquisitions, loan defaults, etc.
Sale, privatization, etc.

5.35 A number of corporations, listed at some point since 1977 as mixed or joint enterprises by the government, are no longer on the list. The classification of some has been changed. In other cases, shares have been sold or transferred or corporations have been dissolved. For example, in the June 1985 annual report of the President of the Treasury Board, a new classification of corporate interests was created to include international organizations. Five of the entities included in that group had been classified as joint enterprises in the Treasury Board Secretariat's publication, *Crown Corporations and Other Canadian Government Corporate Interests*, issued in March, 1984. Other examples include the sale of shares in La Société du parc industriel et commercial aéroportuaire de Mirabel in 1982-83, the transfer of the government's shares of Canadian Arctic Producers Limited to that corporation in the same year and the winding up of the inactive mixed enterprise, Shong Way Shi Corporation Limited, in 1982.

Types of Corporations

5.36 Four of the 13 corporations - Lower Churchill Development Corporation Limited, Newfoundland and Labrador Development Corporation Limited, North Portage Development Corporation and Société Inter-Port de Québec - are joint enterprises. The remaining nine corporations are mixed enterprises. Three of the mixed enterprises are hybrids, involving the participation of other governments and private sector interests. We have classified these three (Telesat Canada, 125459 Canada Limited, and National Sea Products Limited) as mixed enterprises because of the participation of the private sector in each.

5.37 The corporations operate in a variety of sectors, including mining, shipping, telecommunications, energy, fisheries, and regional and community development. They include holding companies as well as operating companies. One corporation (Mohawk St. Régis Lacrosse Ltd.) is inactive.

Ownership

5.38 The proportion of federal ownership of paid-up equity in 1984 ranged from a low of 18 per cent in the case of Nanisivik Mines Ltd. to a high of over 60 per cent in the case of 125459 Canada Limited. The federal government has more than 50 per cent of the voting shares (and therefore a majority interest) in two of the corporations - Canarctic Shipping Company, Limited, and 125459 Canada Limited. In the largest of the mixed and joint enterprises - the Canada Development Corporation - the government has less than 50 per cent of the voting power.

5.39 Many others participate in the ownership of mixed and joint enterprises, including private individuals, corporations, co-operatives, provincial and municipal governments, and others. For example, some 35,000 Canadians share in the ownership of the Canada Development Corporation; Mineral Resources International Limited, a private sector corporation, has a majority interest in Nanisivik Mines Ltd.; the Cooperative Energy Corporation is part owned by a number of co-operative financial, agricultural, service and marketing institutions; and the North Portage Development Corporation is owned equally by the City of Winnipeg, the Province of Manitoba and the Government of Canada.

Financial Profile

5.40 The most recent information available (see Exhibit 5.4) indicates that, in 1984, the active mixed and joint enterprises had total assets and liabilities of $8.7 billion and $7.1 billion respectively. By way of comparison, the assets and liabilities of Crown corporations scheduled under the Financial Administration Act amounted to $49 billion and $37.6 billion respectively for their financial years ending on or before 31 July 1984. The total assets and liabilities of the mixed and joint enterprises are dominated by the consolidated assets ($7.6 billion) and liabilities ($6.5 billion) of the Canada Development Corporation.

5.41 At cost, Canada's equity in the corporations was over half a billion dollars in 1984. Loans outstanding from the federal government to mixed and joint enterprises at the end of 1983-84 totalled $53 million.

5.42 Mixed and joint enterprises may receive grants and contributions under a variety of government programs in the same way as other eligible corporations. Grants and contributions to mixed and joint enterprises from the federal government during the 1983-84 fiscal year totalled $6.7 million dollars.

Exhibit 5.4

MIXED AND JOINT ENTERPRISES
FINANCIAL PROFILE
FOR YEAR ENDING 1984[1]

(millions of dollars)

Responsible Minister Corporation	% Equity[2]	Assets	Liabilities	Capital	Retained Earnings(Deficit)	Revenue	Expenses	Income/(Loss)
Communications								
Telesat Canada*	49.9	$ 393	$ 251	$ 60	$ 82	$ 129	$ 112	$ 17
Indian and Northern Affairs								
Mohawk St. Régis Lacrosse Ltd.*		INACTIVE						
Nanisivik Mines Ltd.*	18	73	23	50	0	47	38	9
Energy Mines and Resources								
Cooperative Energy Corporation*	50.1	199	80	116	3	23	19	4
Lower Churchill Development Corporation Limited**	49	30		30	0	0	0	0
Regional Industrial Expansion								
Canada Development Corporation*	44.4[3]	7,649	6,459	904	286	4,181	4,100	81
National Sea Products Limited*	20	276	236	44	(4)	407	426	(19)
Newfoundland and Labrador Development Corporation Limited**	40	27	27	0	0	3	4	(1)
North Portage Development Corporation**	33.3	2	0	2	0	0	0	0
NSHOLDCO Limited*	25	NOT AVAILABLE						
Société Inter-Port de Québec**	40	4	0	4	0	0	0	0
125459 Canada Limited *	62[4]	NOT AVAILABLE						
Transport								
Canarctic Shipping Company, Limited*	51	20	25		(5)	7	10	(3)
		$ 8,673	$ 7,101	$ 1,210	$ 362	$ 4,797	$ 4,709	$ 88

1 1984 Annual Reports and Financial Statements

2 Treasury Board Secretariat

3 Based on information in 1984 Annual Report of Canada Development Corporation

4 Percentage of common shares held, 1984

* Mixed enterprise

** Joint enterprise

Audit

5.43 Mixed and joint enterprises are subject to financial attest audit in the same manner as are private sector corporations. Legislative audits, which may include audits both of compliance with authorities and due regard for value for money, are not undertaken.

5.44 Most of the mixed and joint enterprises are either incorporated or have been continued under federal or provincial companies law. As such, they are subject to audit provisions that require attest audits of their financial statements. In addition, both the Canada Development Corporation Act and the Telesat Canada Act require those respective corporations to be audited in accordance with the provisions of federal companies legislation. The provincial special act incorporating Société Inter-Port de Québec is not specific with respect to the type of audit, but provides that the accounts of the corporation may be audited by the Office of the Auditor General of Quebec. However, a private sector firm is the appointed auditor, and auditors' reports for the corporation indicate that financial attest audits have been undertaken in that corporation.

Information Available to Parliament

5.45 A number of sources of information on mixed and joint enterprises are available, or potentially available, to Parliament. The main ones are:

- the annual consolidated report of the President of the Treasury Board, which is required to be tabled in Parliament pursuant to section 153 of the Financial Administration Act;
- other reports, including the annual reports of the corporations and/or the departments in the portfolios of the responsible ministers;
- the Main and Supplementary Estimates, which provide Parliament with the opportunity to scrutinize the expenditure proposals of the government;
- the Public Accounts, which summarize the financial operations of the government during the preceding year - including the operations of Crown corporations and certain other bodies whose accounts are maintained separately from the accounts of Canada; and
- enabling instruments, including incorporating documents, shareholder's agreements and legislation providing statutory authority for the incorporation or acquisition of corporations.

5.46 Further, in the course of exercising their responsibilities with respect to control of the public purse and ensuring accountability for the expenditure of public funds, parliamentarians have the opportunity to request additional information from the responsible ministers.

5.47 Exhibit 5.5 provides some examples of information available to legislatures in selected other countries.

Exhibit 5.5

INFORMATION AVAILABLE TO LEGISLATURES IN SELECTED OTHER COUNTRIES

In general terms, our review of experience in other countries showed that several are grappling with the issue of appropriate accountability mechanisms in the face of a growth of shared ownership in the corporate sector. For example, the Swedish government is completing a major review of state corporations, including 32 mixed and joint enterprise corporations; the Auditor General of New Zealand reported his concern over the accountability of partially-owned corporations in his 1984 annual Report to Parliament; France has introduced new structures to oversee public sector enterprises, including "mixed economy" companies; and in the United Kingdom, where the partial privatization of nationalized industries has created a number of mixed enterprises, concerns with their control and accountability have recently appeared in the public administration literature.

Legislative bodies in other countries have access to information which comes from a variety of reports and practices. The following provides some examples:

France	– A biennial report provides information on the name of the corporation, shareholders, percentage ownership by shareholder and the level of government control. – *Le Haut conseil du secteur public* includes deputies from the legislature and senators; it follows the evolution of the public sector (including "mixed economy" corporations) and the management of its activities. It makes public reports on its reviews. Its 1984 report included legal, financial, economic and social analyses. – The French Senate recently created a permanent study group to review information on nationalized industries and "mixed economy" corporations.
Netherlands	– The report of the audit bureau provides Parliament with information on corporations owned more than 50% by the government. – The Annual Finance Law requires a list of the names of entities with state participation, the percentage of state participation and a statement of dividends where they exist.
New Zealand	– The Public Accounts show equity capital and loans to partially-owned corporations. – Thirteen function-oriented committees of Parliament have the power to examine the policies, administration and expenditures of departments and associated non-departmental government bodies.
Sweden	– An annual report describes the number and activities of state-owned corporations, including those in which the government has a partial but direct holding. – In some cases the government may appoint a lay person – including a Member of Parliament, a government official or a representative of the national audit bureau – to participate in the audit of a mixed enterprise.
United States	– The Comptroller General is charged with the audits of "mixed ownership government corporations" and submits his report to Congress along with a statement of impaired capital and a recommendation for return of capital to government. In practice, such audits are usually carried out by private sector accounting firms.
West Germany	– A report lists partially-owned corporations, including nominal capital invested as well as equity by amount and percentage. – The participation of the government in "private law enterprises" is audited by the Federal Court of Audit and an annual report is submitted to the legislature.

The Annual Consolidated Report of the President of the Treasury Board

5.48 Section 153 of the Financial Administration Act requires the President of the Treasury Board to cause an annual consolidated report on the businesses and activities of all parent Crown corporations to be laid before each House of Parliament. Among other things, the report is required to include a list naming, as of a specified date, all corporations of which any shares are held by, on behalf of, or in trust for the Crown. The first annual report, *Annual Report to Parliament on Crown Corporations and Other Corporate Interests of Canada, 1983-84*, was tabled in June 1985 and in future will stand referred to the Public Accounts Committee. The report represents the status of mixed and joint enterprises as of 31 December 1984.

5.49 Part II of the report provides the single most complete listing of mixed and joint enterprises. It replaces the Treasury Board *Secretariat's Crown Corporations and Other Canadian Government Corporate Interests*, last published in March 1984. In addition to listing the mixed and joint enterprises, for corporations other than those in which shares are held under the terms of the Bankruptcy Act, the report gives the corporation's name, head office, responsible minister, year incorporated and the legislation under which the enterprise has been incorporated, fiscal year end, auditor and a description of the corporation's mandate.

5.50 Under the wording of sub-section 153(3) of the Financial Administration Act, nothing more than a list of the names of mixed and joint enterprises would be required. However, our understanding is that the Crown Corporations Directorate of Treasury Board/Finance (which compiles the information) intends the report to provide at least as much information as was available in the past while providing more assurance that all relevant corporations are identified.

5.51 A comparison of the information in this first annual report with information in previous reports relating to the government's corporate interests indicates that several improvements have been made. These include correcting previous misclassifications of corporations, listing some corporations not previously identified and including information which had previously been missing.

5.52 The relatively informal data gathering and verification methods of the past were strengthened in 1985 by requesting deputy ministers to confirm and update existing data for mixed and joint enterprises for which their ministers were responsible. Nevertheless, the acquisition of consistent data of high quality presented some difficulties for the Crown Corporations Directorate because the centres of responsibility within departments were not always clearly defined. In the case of the two fishery holding companies, uncertainty as to the federal focus of accountability for these corporations at the time the data were being gathered contributed to the difficulty of acquiring authoritative data.

5.53 The information provided on NSHOLDCO Limited and 125459 Canada Limited indicates that both these companies were incorporated in 1983 under the Nova Scotia Companies Act and the Newfoundland Companies Act respectively. Each was actually incorporated under the Canada Business Corporations Act (CBCA) in 1983. NSHOLDCO Limited was initially incorporated federally under the name 125457 Canada Limited; it was discontinued under the CBCA in June 1984 and subsequently continued under the Nova Scotia Companies Act. Its name was changed to NSHOLDCO Limited in July 1984. 125459 Canada Limited is still a federally incorporated company, although it was registered in the province of Newfoundland in 1984. Also, as the name of the auditor is not provided for either NSHOLDCO Limited or 125459 Canada Limited, it cannot be determined from the report whether auditors have been appointed.

5.54 In addition, during our study we found that National Sea Products Limited is a mixed enterprise, because the Government of Canada is the registered holder of 1,527,043 common shares of that corporation. However, National Sea Products Limited is not included in the list of mixed and joint enterprises.

5.55 Previous lists of the government's corporate interests provided by Treasury Board Secretariat since 1977 used two principles to categorize the information presented: degree of ownership and nature of ownership. Thus, wholly-owned corporations were distinguished from partially-owned corporations, and corporations with share capital were distinguished from those without share capital.

5.56 The June 1985 report establishes a new classification of entities - international organizations. This new grouping includes organizations with share capital (previously classified as mixed and joint enterprises) as well as those without share capital (previously classified as "other entities") without distinguishing between them. We recognize that international organizations have unique characteristics that may justify separate identification. For example, they are not Canadian corporations - they serve an international development function and have special status, immunities and privileges. Nevertheless, the result of the present treatment is that a reader of the report is not informed that some of the international organizations are enterprises with share capital owned jointly with other governments and/or organizations to further common objectives.

5.57 These international organizations are significant entities. According to the 1983-84 Public Accounts, Canada subscribes to the capital of seven such organizations and the subscriptions totalled $1.6 billion as of 31 March 1984.

5.58 Finally, much potentially useful information on mixed and joint enterprises is not provided in the report:

- There is no information on such matters as the nature and extent of government participation, financial profiles of the corporations and the federal government's objectives.
- The report does not indicate whether a corporation is a mixed or joint enterprise or who the other owners are.
- There is no information on the subsidiaries or associates of the mixed and joint enterprises. In comparable reports produced in the past, the subsidiaries of

mixed and joint enterprises (with the exception of those of the Canada Development Corporation) have been listed.

5.59 In this regard it should be noted that section 153 of the Financial Administration Act does not require the President of the Treasury Board to publish such information. As a result, the Crown Corporations Directorate of Treasury Board/Finance has not been formally charged with the mandate or provided with the authority required to accumulate any information on mixed and joint enterprises other than that required to compile a list of their names.

5.60 Nevertheless, in view of the potential importance of this report as a central repository of information on the government's involvement in mixed and joint enterprises, we believe that improvements would allow parliamentarians to understand better the nature, extent and purpose of the government's participation. To provide a more complete framework for reporting to Parliament, the report could usefully include information such as:

- the government's objectives in participating in ownership;
- the percentage ownership by the government;
- financial profile of the corporation;
- the nature and extent of the government's investment;
- whether a corporation is a mixed or joint enterprise;
- other major shareholders in the corporation; and
- explanations where corporations are added to or dropped from the list.

Subsequent to the publication of the first report, several changes have been made by the Crown Corporations Directorate to improve the questionnaire used in gathering data on mixed and joint enterprises. In addition, we were informed that the second annual report will contain new information, such as the government's percentage ownership, and how equity participation in an enterprise serves the government's objectives.

Other Reports

5.61 Parliament formally receives other annual reports relating, in whole or in part, to specific mixed and joint enterprises. These are:

- an annual report on the administration of the Atlantic Fisheries Restructuring Act;
- the annual report of Telesat Canada; and
- annual reports of departments.

5.62 **Annual report on Atlantic Fisheries Restructuring Act.** On 30 November 1983, the Atlantic Fisheries Restructuring Act received Royal Assent. Among other things, the Act authorizes the acquisition, holding or disposal of shares in fishery enterprises. The Act also requires the Minister of Fisheries and Oceans to table an annual report in each House of Parliament with respect to the administration of the Act. The report is to be tabled no later than the fifth sitting day after the first day of June next following the end of the fiscal year to which the report refers. Therefore, the first such report, relating to 1983-84, was due to be tabled in June 1984. It was not tabled until 6 May 1985.

5.63 The Act does not specify either the form or the content of the annual report. However, in preparing the report, the Minister is required to take into account any recommendations made by the Parliamentary Committee on Fisheries and Forestry. Although this Committee has not made any recommendations in this regard, the 1983-84 annual report was consistent with a model of such a report that had been presented to the Committee during the parliamentary hearings on the Atlantic Fisheries Restructuring Act.

5.64 The only information relating to mixed enterprises in the 1983-84 report was that Canada had acquired 10,000 non-voting shares in NSHOLDCO Limited at a cost of $10 million. Among the powers listed in the Atlantic Fisheries Restructuring Act is the power to enter into any agreements or arrangements necessary or incidental to any activities relating to dealings in shares, debentures or other securities of, or any security interests in, any fishery enterprise. The report makes no reference to any agreements or arrangements although, during the period 30 November 1983 to 31 March 1984, there was a series of agreements between Canada and other parties in relation to the restructuring of the Nova Scotia fishery.

5.65 **Corporate annual reports.** Most of the mixed and joint enterprises publish annual reports. In general, these annual reports are not tabled in Parliament and thus cannot be permanently referred to committees. The one exception is the annual report of Telesat Canada, which is tabled pursuant to the Telesat Canada Act. In addition, the Canada Development Corporation, although not required by legislation to do so, has made it a practice to send a copy of its annual report to each Member of Parliament and to each Senator.

5.66 **Departmental annual reports.** In some cases, the annual reports of departments provide corporation-specific information on the mixed and joint enterprises that have been established or acquired in the course of implementing the program responsibilities of the departments concerned. In other cases the relevant corporations are not mentioned. Even where information is included, it is presented in the context of a department's entire operations and, inevitably, the amount of detail that can be presented on a corporation is limited. As a result, even summary information on such matters as the government's objectives in making and maintaining the investment, the achievement of objectives in relation to costs over time and so on is not consistently included.

Estimates

5.67 All spending by the federal government requires the approval of Parliament. That approval is granted in the form of appropriations. Requests for appropriations relating to mixed and joint enterprises generally appear as one-line items in the Main and Supplementary Estimates. The types of supporting information now provided in the Estimates for some Crown corporations (objectives and description of activities) are not provided.

5.68 Some planned payments are not identified or described in the Estimates in such a way that Parliament is fully informed of the financial relationships between the corporation and the government. As an example, the purchase of 51 per cent of the shares of Canarctic Shipping Company, Limited in 1978 was not identifiable in the wording of 1977-78 Marine Vote 10 - Operating Expenditures. Furthermore, in subsequent years it has not been clear under vote descriptions that the payments made to subsidize fully the deficits of this corporation were being made to a corporation only 51 per cent owned by the government. For the six-year period ended 31 March 1984, these payments amounted to $19.9 million.

5.69 Part III of the Estimates provides the opportunity to give Parliament additional information on each department and its programs, primarily in terms of the results expected for the money spent. Up to now, little information has been included in the Part IIIs that would allow parliamentarians to assess the nature of the results expected (or previously achieved) for the investments made with respect to those mixed and joint enterprises established, acquired or supported with program funding.

5.70 In light of the small number and low materiality of transactions relating to mixed and joint enterprises that have gone through the Estimates in recent years, we have concluded that current practice is not inappropriate. However, should the number and significance of such transactions increase in the future, it may be necessary to review the need for a fuller display of information supporting the need for proposed expenditures and describing the results expected to be achieved.

Public Accounts

5.71 **Content and presentation.** Volume I of the Public Accounts presents the summary financial statements of the Government of Canada and some detail in relation to the statements. Volume II presents the financial operations of individual departments and their associated agencies, together with additional information and analysis. Both Volume I and Volume II provide some information on mixed and joint enterprises.

5.72 Volume I presents information in four separate schedules. Section 7 provides details of government's loans, investments and advances to corporations and organizations (including mixed and joint enterprises) with current year transactions and balances. For the 1983-84 Public Accounts and earlier years, these schedules were identified as relating to:

- Government-controlled corporations - defined as those "in which the Government of Canada has a controlling interest"; and

- Private sector enterprises - defined as "industrial or commercial organizations controlled by private owners".

5.73 There have been some anomalies in referring to specific mixed and joint enterprises within these schedules in the past. For example, information on joint enterprises has been included in the latter of the two schedules, although the other shareholders of such corporations are other levels of government rather than private owners. However, our understanding is that the government will address these matters by a more appropriate identification of the relevant schedules in the 1984-85 Public Accounts.

5.74 The two schedules in Section 7 present the following for each corporation:

- the total investment (loans, investments and advances) by Canada at the beginning of the government's fiscal year (April 1);

- total receipts and other credits during the year;

- total payments and other charges during the year;

- the resulting total investment (loans, investments and advances) at the end of the government's fiscal year (March 31); and

- the net change (if any) in the government's investment.

5.75 Because Volume I of the Public Accounts presents the summary financial statements of the Government of Canada as a whole, the level of detail that can be accommodated with respect to any sub-set of transactions is limited by materiality considerations. Thus, although the schedules provide a reconciliation of the government's opening and closing investment in a corporation, they do not distinguish among loans, investments and advances. One consequence of this is that the schedule for private sector enterprises does not distinguish between entities in which Canada has equity involvement from those in which Canada has loan involvement only.

5.76 The schedules in Section 7 include brief narratives on each corporation. The extent of detail provided in these narratives varies considerably among the corporations concerned. Whereas excellent narratives are provided for some corporations, only sparse information is available for others. The narratives may, but do not necessarily, include reference to:

- incorporating act;

- purpose and function of the corporation;

- history of the government's involvement;

- detailed components of the government's total investment;
- statutory authority for the government's investment;
- the government's share of the corporation's capital;
- interest rates on loans to the corporation;
- basis on which further amounts are advanced;
- terms of repayment of loans and advances; and
- names of other shareholders.

5.77 In the 1983-84 Public Accounts, the total assets, liabilities, long-term debt, shareholders' equity and the portion of shareholders' equity attributable to common shareholders were included in the narrative relating to the Canada Development Corporation.

5.78 Section 12 of Volume I sets out the government's contingent liabilities, some of which are represented by guarantees of the debts of mixed and joint enterprises. Section 14 sets out the return on the government's investments, including investments in mixed and joint enterprises.

5.79 Volume II of the Public Accounts shows appropriations and contributions to mixed and joint enterprises generally as one-line items and, for the Canada Development Corporation, the "program objective". Current budgetary appropriations and contributions made to mixed and joint enterprises are disclosed in the various departmental sections.

5.80 Until 1983-84, Volume III of the Public Accounts included the audited financial statements of Crown corporations permitted by legislation to keep their own accounts. The Public Accounts Committee, in its Twenty-second Report (the Canadair Report) of 17 November 1983, recommended that "all government-controlled corporations, including their subsidiaries, ...(have) their financial statements reproduced in Volume III of the Public Accounts". However, the government has decided to discontinue Volume III in view of the duplication between information in that document and information on Crown corporations now provided in the annual consolidated report of the President of the Treasury Board pursuant to the September 1984 amendments to the Financial Administration Act.

5.81 **Accounting for investments in mixed and joint enterprises.** The manner in which the government accounts for its investments in mixed and joint enterprises may have a significant bearing on the nature of the financial information available to Parliament.

5.82 The government's accounting policies require that investments in and advances to mixed and joint enterprises be recorded at cost and be subject to annual valuation to reflect reductions from the recorded value to the estimated realizable value. Earnings from investments are recognized as revenue only to the extent that they are received.

5.83 This accounting treatment may be appropriate from the perspective of reporting the Government of Canada's overall financial position and results of operations, given the relative significance of mixed and joint enterprises at this time. However, if the significance of such corporations increases, a more appropriate method of summarizing their transactions in the government's financial statements may well be required.

5.84 Specifically, we believe that study is needed of the extent to which it may be appropriate to consolidate the activities of certain mixed and joint enterprises with the financial statements of the government, and of alternative presentations where consolidation is inappropriate. This is consistent with our report on the government's 1984 financial statements where we recommended such a study for all Crown-owned corporations and agencies.

Enabling Instruments

5.85 Parliamentarians may rely on various types of enabling instruments, to the extent they are available, for information on mixed and joint enterprises. In general, two types of enabling documents are involved - those associated with the authorization of equity involvement in mixed and joint enterprises and those associated with the incorporation of such enterprises.

5.86 General or specific parliamentary authorization for equity involvement in mixed and joint enterprises generally takes the form of special federal acts, departmental enabling legislation and appropriation acts.

- The Canada Development Corporation Act and the Telesat Canada Act provided the required authority, and were the incorporating instruments, for establishing those two corporations. Similarly, the Cooperative Energy Act gave Parliament's authority, and was the instrument, for the incorporation of the Cooperative Energy Corporation and its wholly-owned subsidiary, the Cooperative Energy Development Corporation; both these latter corporations were subsequently continued under federal corporations legislation.

- The shares of Canarctic Shipping Company, Limited were acquired by the Department of Transport in 1978 under the authority of a budgetary vote, and a Treasury Board contingency vote was used to acquire shares in the Newfoundland and Labrador Development Corporation Limited.

- Several pieces of federal legislation provide general authority to incorporate or acquire equity. These include the Special Areas Act, the Atlantic Fisheries Restructuring Act and the Indian Act.

- In another case, the nature of parliamentary authorization for share acquisition is unclear. In return for infrastructure facilities provided by the

Department of Indian Affairs and Northern Development at a cost of $24.4 million, and in accordance with an agreement with the government, Nanisivik Mines Ltd. issued 18 per cent of its common shares to the government.

5.87 As noted earlier, the recently amended Financial Administration Act includes some clauses that preclude the incorporation of a company or the acquisition of shares that would be held by, on behalf of, or in trust for the Crown, unless authorized by an Act of Parliament. However, the effects of this new legislation have yet to become apparent. There may already be a number of pieces of legislation that provide the general authority required to incorporate or acquire shares in a mixed or joint enterprise without new, explicit parliamentary authority being required. For example, the Atlantic Fisheries Restructuring Act, which provides such authority, was excluded from the acts amended as a consequence of the changes effected through Bill C-24.

5.88 Mixed and joint enterprises have been incorporated under federal or provincial companies legislation and special acts of federal and provincial jurisdictions.

- Where incorporation is under the Canada Business Corporations Act or equivalent provincial legislation, the government has the same rights and privileges as any other shareholder, although those rights and privileges differ among the various pieces of legislation. In such cases there is no explicit recognition of the relationship between the government as a shareholder and Parliament.
- Where special federal acts have been used (for example, Canada Development Corporation, Telesat Canada), the government has defined rights and powers for itself that differ in some respects from those of other shareholders. The acts of both these corporations also take some account of Parliament's role. For example, Telesat Canada's annual report and its letters patent must be tabled in Parliament, and Parliament's approval is required to wind up either Telesat Canada or the Canada Development Corporation.
- The special act of the Government of Quebec that was used to establish Société Inter-Port de Québec, in addition to defining the rights and privileges of the respective shareholders, requires the annual report of the corporation to be tabled before the National Assembly but not also before the Canadian Parliament. The act does not address potential information requirements of the Parliament of Canada despite the federal government's 40 per cent ownership of the corporation.

Thus, there is no consistency in the information available to Parliament either from authorization documents or documents associated with the incorporation and charters of mixed or joint enterprises; neither are such documents regularly available to parliamentarians.

Conclusion

5.89 We reviewed the extent and quality of information available to Parliament from the sources outlined above in light of the present materiality of mixed and joint enterprises, the potential impact of current and future privatization initiatives and the concerns expressed by the Lambert Commission about appropriate reporting and disclosure. Our review shows that financial and other information available to Parliament is fragmented and incomplete.

5.90 There is no regular flow of information to Parliament, through the Public Accounts or through any other reports, concerning the financial position or results of operations of each mixed and joint enterprise. As a result, Parliament is not regularly informed of the magnitude of these corporations or of potential situations where erosion of the financial positions of corporations could put the government's investment in jeopardy or place demands on the public purse beyond the government's initial investment.

5.91 We concluded that there is both a need and an opportunity to improve the flow of information to Parliament on the nature, extent and results of the government's involvement in mixed and joint enterprises.

5.92 **The government should improve the quantity and quality of information available to Parliament on the purpose, nature and extent of the government's participation in mixed and joint enterprises, as well as on the government's expenditures on, and the ongoing operations, financial position and results of such corporations.**

5.93 In determining how improvements can best be implemented, the government should give consideration to:

- presenting, in schedule form, the summarized financial position and results of operations, including budgetary and non-budgetary appropriations from Canada;

- presenting the audited financial statements of government-controlled mixed and joint enterprises;

- tabling annual reports produced by mixed and joint enterprises; and

- tabling any enabling instruments, including articles and memoranda of incorporation (by whatever name called), shareholders' agreements and related documents whenever mixed or joint enterprises are incorporated, equity interests in them are acquired, or changes in the documents are executed, except where such tabling would breach commercial confidentiality.

PUBLIC SERVICE COMMISSION

PUBLIC SERVICE COMMISSION

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6.1 Language Training - Use of Person-years

6

PUBLIC SERVICE COMMISSION

Overview

6.1 The Public Service Employment Act (PSEA), which came into effect on 13 March 1967, sets out the mandate of the Public Service Commission (PSC). The Commission is responsible to Parliament for administering the Act and, as a result, for ensuring that all public service staffing activities comply with the merit principle. Approximately 225,000 people are subject to the terms of the PSEA; employees of Crown corporations and members of the armed forces are excluded.

6.2 The major responsibilities of the Commission under the Act are to:

- make appointments to or from within the public service, based on selection according to merit;
- develop and administer processes and standards for selecting candidates for positions in the public service;
- operate an appeals system for appointments and demotions or releases for incompetence or incapacity;
- investigate anomalies in staffing; and
- investigate and decide on allegations of political activity by public servants, and approve requests for leave to participate in political activity.

6.3 Under the PSEA, the Commission can delegate any of its powers, functions and duties, other than those related to appeals and enquiries, to departments and agencies. It has done so for about 98 per cent of the appointments governed by the Act. The Commission itself carries out non-delegated activities, mostly in the areas of recruiting from outside the public service and staffing the management category. At the same time, the Commission assures compliance with the PSEA and its policies by auditing departmental staffing activities and operating an appeals system for appointments and demotions or dismissals for incompetence or incapacity. The PSC also has a mechanism for investigating complaints about the staffing process. The Commission indicates that it also relies on its contacts with unions, departments, and Members of Parliament.

6.4 In the past few years, the Commission has devoted considerable time and energy to establishing the new management category. Furthermore, it has spent time on development activities such as elaborating policy and providing services and advice to departments.

6.5 The Treasury Board has also delegated to the Commission responsibility for several other functions, among them the following:

- managerial and specialty training;
- language training; and
- the audit of certain personnel functions and related functions and activities.

6.6 Finally, the Commission shares responsibility with Treasury Board in the following areas:

- human resource planning;
- programs of affirmative action and other measures to increase the participation of under-represented groups; and
- management of the management category.

6.7 The Commission's operations are divided into seven activities, each corresponding to a branch. Administration includes the services provided by the Commission's Executive Secretariat. The PSC has 15 regional and district offices. Table 1 lists these activities and shows the resources allocated to each for fiscal 1984-85.

Table 1
Activities and Resources of the PSC

Activities	Millions of dollars	Person-years
Management Category Programs	$ 6.0	109
Non-management Category Staffing Programs	40.0	856
Audit	2.3	51
Appeals and Investigations	4.3	94
Language Training	36.5	748
Staff Development and Training		
Subsidy	2.9	
Revolving Fund[1]	–	200
Administration	27.7	585
TOTAL	$ 119.7	2,643

Source: 1984-85 Estimates, Part III

[1] Disbursements and receipts each amounted to about $12.5 million.

6.8 The PSC operates in a complex environment, given the abstract quality of the merit principle and the presence of several organizations with responsibilities in the area of managing human resources.

6.9 Under the Financial Administration Act of 1967, the Treasury Board determines the personnel complement required to carry out programs approved by Parliament, establishes terms and conditions of employment for public servants, provides for the classification of positions, sets training policies, and negotiates as employer with public service unions on the terms and conditions of employment.

6.10 In addition to PSC's Appeals and Investigations Directorate, public servants have recourse through several agencies, notably the Public Service Staff Relations Board, the Canadian Human Rights Commission, and the Federal Court of Canada. Their decisions, and particularly those of the Federal Court, can exert considerable influence on how the merit principle is applied and public service vacancies are staffed.

6.11 Deputy heads of departments are responsible for implementing and adhering to Treasury Board and PSC human resource management policies. Of the 84,000 public service appointments made in 1984, about 98 per cent were made by departments under authority delegated to them by the Commission.

6.12 The interaction of all these organizations in human resource management makes implementing PSC staffing policies a complex process that requires several mechanisms to ensure co-ordination and consultation among everyone involved.

6.13 The Royal Commission on Financial Management and Accountability (Lambert Commission), the Special Committee on Personnel Management and the Merit Principle (D'Avignon Committee), and the Auditor General, in his report on management constraints, have all drawn attention to the fundamental personnel management problems that reduce administrative efficiency and effectiveness and undermine the authority and responsibility of the organizations involved. They have also pointed to the fact that central agencies tend to impose control rather than give general policy to departments and agencies. The PSC and Treasury Board began a reform of the personnel management function in 1979. The main elements of this reform include streamlining staffing regulations, tailoring delegation instruments to departmental needs, clarifying the respective roles and responsibilities of the Treasury Board and the Public Service Commission, and establishing the senior management category.

Audit Scope

6.14 Our examination addressed the methods the Commission has adopted to provide direction and to supervise the staffing system. They include activities related to developing policy, delegating staffing authority, monitoring operations, and evaluating the staffing system. We also looked at staffing audit, appeals and investigation activities. In the Appeals and Investigations Branch, however, we looked only at information provided by its management to the other branches in the Commission. Finally, we examined the

Commission's activities with respect to selection standards and tests and recruitment from outside the public service.

6.15 We did not investigate the management of staffing by departments, the staffing processes or the appeals and investigation processes. We are thus not in a position to comment on the quality of the Commission's policies and services or on whether departments are satisfied with them.

6.16 With respect to language training, we looked at the planning and control methods in place, with particular attention to the use of human resources. Our investigation included a review of the management practices used by the directorates responsible for teaching and for linguistic services. We did not address the quality of teaching.

6.17 In the staff training and development area, we examined administration, how courses are designed and how training services are costed. Again, the quality of teaching was not investigated. We did not look at the operations of the Centre for Executive Development at Touraine, because Treasury Board was in the process of evaluating courses for senior management at the time of our audit.

6.18 Finally, with respect to administration, we examined the integrated management process, a system that comprises the Commission's planning, review and control mechanisms.

Observations and Recommendations

Staffing

6.19 Given that authority for 98 per cent of appointments is delegated to departments, the PSC's main responsibilities are to provide direction and supervise the staffing system and to use its non-delegated authority.

6.20 To this end, the Commission's activities must be well integrated, enabling it to ensure that the staffing system is meeting the requirements of the Public Service Employment Act as well as the needs of departments and, if not, to take corrective action.

6.21 **Needs analysis.** In carrying out its policy development and delegation activities, the Commission issues policies and procedures, recommends regulations and exclusion approval orders to the Governor in Council, and conducts special studies on staffing. The Commission develops the delegation instruments giving departments and agencies their staffing authority and also provides them with consulting services. These activities are sometimes influenced by external factors such as Federal Court decisions, Treasury Board requirements or union demands, which are beyond the Commission's control.

6.22 This aspect of the Commission's activities is important because this is how the Commission sets the framework within which departments apply the PSEA and enforce the merit principle. To ensure that established guidelines allow departments to observe the law, while taking into account their needs, the Commission must regularly identify and analyse the individual and collective problems of departments, identify those factors that affect the system as a whole, set priorities and establish action plans.

6.23 The Commission has a number of sources of information on departments and agencies: the committees to which it belongs, periodic meetings with employee representatives, and data gathered in numerous dealings with departments, as well as the Commission's own audit, appeals and investigation and consultation activities. We concur that this is necessary and useful information, but the PSC has no centralized mechanism to conduct a systematic analysis of it and optimize the usefulness of its sources of information. A couple of examples come to mind:

- The annual staffing conference and quarterly meetings of chiefs of staffing are used mainly to disseminate information or to gather general comments about problems encountered in implementing one policy or another. It would be better if the results of these sessions were taken further and brought together into a broader Commission-wide needs analysis. These meetings could be part of a service-wide analytical process.
- Departmental requests to PSC regional offices for information on implementing policies and regulations are a good way of identifying needs. However, at headquarters, the Commission does not do a global analysis of requests to determine whether existing policies could be improved.

6.24 Several projects, including reviewing policies, reviewing the Public Service Employment Regulations and studying post-secondary recruitment should have been preceded by a rigorous analysis of departmental needs and problems. The regulations review project, for example, was begun in 1983 to verify that regulations "meet the requirements of the present law as well as the emerging needs of the public service". Users did not participate, however, in the needs analysis conducted at the beginning of the project.

6.25 The Staffing Delegation and Consultation Division has a mandate to assist departments in developing, implementing and evaluating staffing programs that meet their individual needs. The Division can also initiate interdepartmental and government-wide studies. The Division responds to the needs of many departments through its various consultation projects. It does not, however, analyse data assembled in this manner to identify problems prevalent across the public service or to suggest how problems common to departments and agencies operating under the PSEA might be solved.

6.26 Two studies of staffing efficiency and effectiveness were conducted in 1983 and 1984. The results of the 1983 study were deemed inadequate as a basis for generalizing about staffing problems. At the time of our audit, the second study, which was supposed to be finished in December 1984, was significantly behind schedule. Once completed, it should provide means of addressing staffing problems in the six departments that participated in the project. The studies did not, however, include analysis of the problems the PSC encountered in pursuing its objectives. Because of their one-time nature, they cannot be a continuing source of information for the Commission.

6.27 The Public Service Commission should analyse on a continuing basis the needs and problems encountered by the public service as a whole in the use of the staffing system.

> *Commission's response:* *The Public Service Commission has analysed the staffing needs of the Public Service and will continue to do so. The manner and mechanisms used to conduct the analyses and synthesize the information will vary from time to time and must be flexible to adapt to a constantly changing personnel management and economic environment. While such mechanisms may not be exactly those that the audit team perceives to be required, they are nevertheless appropriate to our needs and those of the personnel community at large.*

6.28 **Project management.** In the context of examining the Commission's methods of managing its staffing responsibilities, we looked at the management of projects for developing staffing policy and programs, as well as at administrative reform and delegation activities. Many of these projects involve the responsibilities of more than one branch, so how they are managed is often affected by a variety of participants.

6.29 We examined the management of several projects: the review of Regulations and the revision of the Staffing Manual, as well as more general activities such as the operation of the Delegation Advisory Committee and the management of administrative reform. Our examination revealed weaknesses in planning and control.

6.30 It appears that the review of the Regulations, which began in 1983 and was to have been completed at the end of 1984, will not be finished before the end of 1985. The delay was due partly to the Commission's failure to co-ordinate help from legal services. Further, there is no general work plan for the project.

6.31 The project to convert the Staffing Manual to the same format as the Personnel Management Manual published by the Treasury Board was not completed until June 1985. It was to have been completed by April 1983. The PSC did not assign a priority to the project and encountered difficulties establishing objectives and allocating the necessary resources for it. There was no general work plan for the project.

6.32 The report on the role and functioning of the Delegation Advisory Committee, approved in May 1984, revealed serious weaknesses and recommended, among other things, that the responsibilities of committee members be defined more precisely, that departments participate in the committee, and that analyses of departmental performance information be improved. None of the recommendations was implemented, however, until May 1985.

6.33 Since 1979, many of the Commission's activities related to broad administrative reform were undertaken following the reports of the Lambert Commission and the D'Avignon Committee. In the fall of 1984, the PSC launched a second phase of this reform.

6.34 However, we saw no evidence that the Commission had formally evaluated its own major activities following the Lambert and D'Avignon Reports or looked at the causes of problems such as those that occurred with the delegation of authority to line managers.

6.35 The Commission has set objectives for the second phase of administrative reform. At present, however, there is no overall plan describing the strategies, activities and resources needed to achieve service-wide objectives. No criteria have been established as a basis for monitoring and evaluating ongoing activities.

6.36 **The Public Service Commission should require that projects have work plans specifying objectives, activities, resources, milestones, schedules and expected results and should exercise strict control to ensure that work plans are adhered to.**

> Commission's response: *The PSC agrees that every major project should have a work plan that includes the attributes mentioned in the recommendation. However, the plan must not be so rigid or restrictive that it cannot be flexible enough to react to changing environmental conditions. An appropriate mechanism must exist to allow the plan to be adjusted to meet changing objectives, the redefinition of requirements or changes in policy or legislation. To assume that no such changes will occur would be shortsighted and unwise.*

6.37 **Monitoring departmental operations.** The Commission does not monitor staffing operations conducted by departments in accordance with the monitoring role described by the PSC in the Personnel Management Manual.

6.38 The Appointment Information Management System (AIMS) provides information on the number and type of appointments made. However, our audit revealed that the PSC does not carry out a monitoring process that provides assurance that staffing policies and practices are achieving their intended results, are effectively applied, and that delegated authority is being properly exercised.

6.39 **The Public Service Commission should monitor adherence to its policies and procedures, a role the Commission prescribes for itself in the Personnel Management Manual.**

> Commission's response: *The PSC agrees with this recommendation and would stress that monitoring itself can be conducted in many ways. The Commission cannot and does not rely solely on formal reports, including audit reports, that are generated by various organizations within the Commission. It also relies on information obtained through links with various personnel management*

interests, both internal and external to the federal public service, many of which have been identified in the report. It is through the use of the varied feedback mechanisms that the PSC constantly monitors the adherence to, as well as the impact of, Commission policies and procedures. The nature of the Commission's mandate, and the effects it has on personnel management in the Public Service, do not allow monitoring thereof to be restricted just to narrow narrative and statistical reports. A variety of effective linkages is fundamental to monitoring, not just documented reports. However, recognizing the need for visible monitoring, the PSC is establishing a Monitoring and Review unit in the integrated Staffing Programs Branch.

6.40 **Evaluating the staffing system.** The PSC has little information on the suitability and effectiveness of its policies. Since 1982, only two policies have been evaluated.

6.41 The responsibility for evaluating the Commission's staffing policies was delegated to the Treasury Board Secretariat in 1982. Six policies were to be evaluated between 1982 and March 1986, but only two evaluations were done. The PSC has no other mechanism in place to evaluate the effectiveness of its policies.

6.42 **The Public Service Commission should review the merits of delegating the evaluation of staffing policies to Treasury Board.**

> *Commission's response: The PSC understands the concerns behind the recommendation but must point out that this is part of a broader picture involving its main partners in personnel management (Privy Council, Treasury Board, Committee of Senior Officials).*

6.43 **Exclusion approval orders.** Section 39 of the Public Service Employment Act permits the Commission, with the approval of the Governor in Council, to exclude persons, positions or classes of positions in whole or in part from the operation of the Act where the Commission considers it not practicable or in the best interests of the public service to apply the Act. Exclusion approval orders are short-term devices responding to exceptional circumstances.

6.44 The use of exclusions has grown over the past few years, particularly in the hiring of temporary employees for periods of six months or less. In 1983, 10,000 appointments were authorized by exclusion approval orders; in 1984, there were approximately 14,000 appointments of this kind authorized.

6.45 On 16 March 1983, the Commission approved guidelines for considering requests for exclusion approval orders. The purpose of these guidelines:

> is to outline the kind of considerations that should be taken into account when determining whether it will recommend to the Governor in Council approval of

an exclusion order under section 39 of the PSEA and to summarize the basic information required in a submission to the Commission seeking such an order.

6.46 We examined all the blanket exclusion order approvals considered since March 1983. Our examination revealed that the files of four of the six recommendations for exclusion orders did not contain all the information called for in the guidelines. As a result, we had no assurance that the Commissioners were provided with the information necessary to assess the effects of the exclusions on the Commission's responsibilities and policies.

6.47 We also noted that the PSC does not monitor how departments are administering exclusion approval orders, despite the fact that a special audit conducted by the Commission revealed signs of abuses in the system.

6.48 **The Public Service Commission should document the factors it has taken into account for recommending exclusion approval orders and should monitor departmental administration of exclusion approval orders.**

Commission's response: *The PSC agrees with this recommendation.*

6.49 **Auditing.** Part of the Commission's mandate is to ensure adherence to the merit principle in all public service appointments and to report to Parliament about this. With staffing authority for 98 per cent of appointments delegated to departments, the PSC must ensure that departments are using delegated authority properly and in accordance with the merit principle. Auditing is important because it is among the most important ways the Commission has of knowing whether its policies are being followed and, if not, of identifying problems and suggesting corrective action to departments..

6.50 Under three 1982 agreements between the PSC and the Treasury Board, the Commission is also responsible for auditing personal service contracts and management systems used for specific aspects of classification, compensation, labour relations and official languages. The PSC has also audited departmental affirmative action programs since April 1983 and training activities since April 1985.

6.51 Our examination of the Commission's audit activities covered the objectives, methodology and reports of the Audit Branch, as well as its planning and control mechanisms. We looked at eight audits and two follow-up audits conducted in departments in 1983-84 and 1984-85. To ensure that we covered the Commission's entire audit process, we chose to examine audits that had been completed by 31 March 1985. As a result, our sample did not include audits carried out under the new auditing directives issued after June 1984.

6.52 In Part III of the Estimates for 1985-86, the Commission states that one of its objectives is to audit staffing and personnel management activities delegated to deputy heads by the Treasury Board and the PSC. Another objective is to "increase awareness of parliamentarians, the Treasury Board Secretariat and the Commission of the effectiveness of the personnel system and of the impact of policies, practices and regulations on the system." The Commission goes on to say in its Part III that the "activity involves the examination of the management of staffing and other personnel management systems, including the assessment of the effectiveness and the effect of policies, practices, procedures and regulations on these systems."

6.53 The text of Part III of the Estimates conveys the idea that the PSC audits all aspects of personnel management in the public service. The Commission does audit specific aspects of personnel management, but its mandate for auditing classification, compensation and labour relations is limited. In our view, the agreements between the PSC and the Treasury Board are too restrictive to allow the Commission to audit the personnel management function as a whole. Moreover, the scope of the Commission's audit work is not such that it can evaluate the effectiveness of the personnel management system in the way that evaluating effectiveness is described in the Program Evaluation Guide issued by the Office of the Comptroller General.

6.54 **The Commission should clarify its auditing mandate, as well as the objectives associated with this activity.**

> *Commission's response: PSC understands the concerns which underlie this recommendation but here also must point out that this can only be done in the context of an overall review of the monitoring, the auditing and the evaluation of personnel management operations in consultation with our partners.*

6.55 In March 1984, the Commission published the Guide to Personnel Audit and Review, setting out the process it planned to follow in its audits. Since 1983, the Commission has also used auditing guidelines covering selected aspects of staffing, such as the area of competition, and the personnel functions delegated by the Treasury Board, such as the monitoring and auditing of classification. The Guide and the guidelines form the nucleus of the Audit Branch's methodology.

6.56 As we examined the Commission's audit files, several facts came to light:

- The planning process, including the criteria used to determine the scope of an audit, is not documented in the audit files. It is therefore impossible to review this important part of the audit and to ensure that the significant elements, particularly those selected for examining the staffing process, have been audited.
- Few of the guidelines specify which documents and control points are to be examined or identify auditing procedures in such a way as to ensure that all audits are uniform in terms of both quantity and quality. Nor do the guidelines contain criteria against which auditors can examine the various management functions.
- The documents known as audit programs are in fact descriptions of the entity being examined and of the scope of the audit. They provide auditors with instructions about the work to be done. The instructions are far too general,

however, to provide any assurance that all auditors will apply audit procedures and techniques uniformly.

- Working paper files do not contain all the information necessary for assessing the quality and quantity of work completed. When it comes to management audits, it is virtually impossible to determine what questions have been addressed and what evidence has been found to support observations. It was not possible to tell whether every step had been followed in performing compliance tests or whether problems the auditors identified in documents had been corrected.

- The Branch's audit reports are long documents mixing description with analysis and positive observations with negative findings. Because of the style of reports, it is difficult to tell whether the problems discussed are serious or just appear that way.

6.57 From these observations it is clear that there are several shortcomings in the management of the audits we reviewed. The Commission was aware of some of these weaknesses because it issued directives on working documents and internal reports and introduced a project management system during 1984-85. For the reasons indicated previously, at the time of our audit, it was too early to say what the effect of these initiatives would be.

6.58 Even so, these steps will not bridge all the gaps revealed by our audit. Auditors are not well supported by directives or adequate supervision and review of their work. Moreover, audit personnel have little training in audit concepts and techniques. There is no quality control at any stage in the audit process, from planning to reporting.

6.59 **The Audit Branch should:**

- **complete its directives on audit methods, scope and the documentation required to support findings;**
- **ensure that these directives are adhered to;**
- **review all audit files;**
- **introduce a post-audit quality control system; and**
- **ensure that auditors are trained in audit concepts and techniques.**

Commission's response: *The Audit Branch has issued a number of such policies, directives and related documentation over the past year, including some that were issued prior to the arrival of the OAG audit team. While the audit team stated that it was too early to assess the impact of such efforts, the Audit Branch will evaluate the effectiveness of its actions and make appropriate adjustments where necessary. In addition, once the mandate of the Branch is clarified, appropriate resources and training will be obtained to ensure that the mandate can be carried out effectively and efficiently.*

6.60 **Appeals and investigations.** Under the Public Service Employment Act, the Commission is required to operate an appeals and investigation system for appointments and demotions or releases for incompetence or incapacity. This system is an important element in managing staffing. About 10 per cent of appealable selection processes were appealed in 1984.

6.61 Our audit covered only how information from the appeals system is integrated into the management of the staffing system. The analysis of appeals and Appeal Board decisions gives an indication of the problems departments are having in administering the PSEA. This information is both an indicator of the extent to which staffing activities reflect the merit principle and a means of ensuring that the principle is adhered to.

6.62 We noted that the information is adequately conveyed to the policy development group, which analyses it and presents its conclusions to the Delegation Advisory Committee.

6.63 **Selection standards and tests.** The PSC develops selection standards and tests and provides services and advice to departments on how to apply them. The Commission gives and corrects between 40,000 and 50,000 selection tests each year.

6.64 We found that this part of the Commission's work is properly planned and that the branch responsible for it has appropriate mechanisms in place to control project implementation.

6.65 **Outside recruitment and other central services.** One of the PSC's responsibilities is recruitment from outside the public service. To this end, the Commission set up a National Applicant Inventory System in 1983 so that Canadians in all parts of the country would have equal access to federal public service jobs. The system processed about 160,000 job applications in 1983-84, and 40,000 candidates were referred to departments in response to 14,000 requests to fill vacancies. The Commission maintains an inventory of between 25,000 and 30,000 names to fill these requests.

6.66 The PSC also provides central services to departments, such as administering language tests, maintaining a lateral transfers system, and operating a priorities system so that employees declared surplus or laid off can be placed in other public service jobs.

6.67 The PSC has appropriate mechanisms in place to manage outside recruitment and other central services and to account for its use of human resources. For example, the number of person-years forecast in activity work plans is linked to expected volumes and unit costs. Volume and unit cost forecasts are based on experience and on facts that come to light as plans are being developed. There is an activity analysis carried out at mid-year and year-end where actual unit costs are compared with forecasts and with last year's actual costs, and any discrepancies are explained. The use of person-years is analysed in the same way.

6.68 The Commission has also developed an appropriate management information system for outside recruitment. In addition to data on the number of requests received and referrals made, the Commission has indicators on the proportion of under-represented groups in the inventory and the referral system, on how long it takes to process requests for referrals, and on the proportion of candidates that do not meet the minimum requirements of jobs for which they were referred.

6.69 We are satisfied with PSC management controls over its outside recruitment activities and the central services provided to departments.

Language Training

6.70 Language training was one of the responsibilities delegated by Treasury Board to the Commission in June 1982. The agreement between the two agencies stipulates that Treasury Board will develop language training policy, establish strategic objectives, assess training needs, determine the level of funding for language training, and evaluate the policy. The Commission is to develop and operate language training courses, assess candidates' aptitude to learn the other official language, and test students' language skills.

6.71 Language training comprises two activities: teaching, and technical and specialized services. Teaching resources are divided among teaching itself, teaching support activities (course preparation, supervision, etc.), leave and training, and administration. Technical and specialized services include linguistic and client services. Exhibit 6.1 shows how person-years are allocated to these activities.

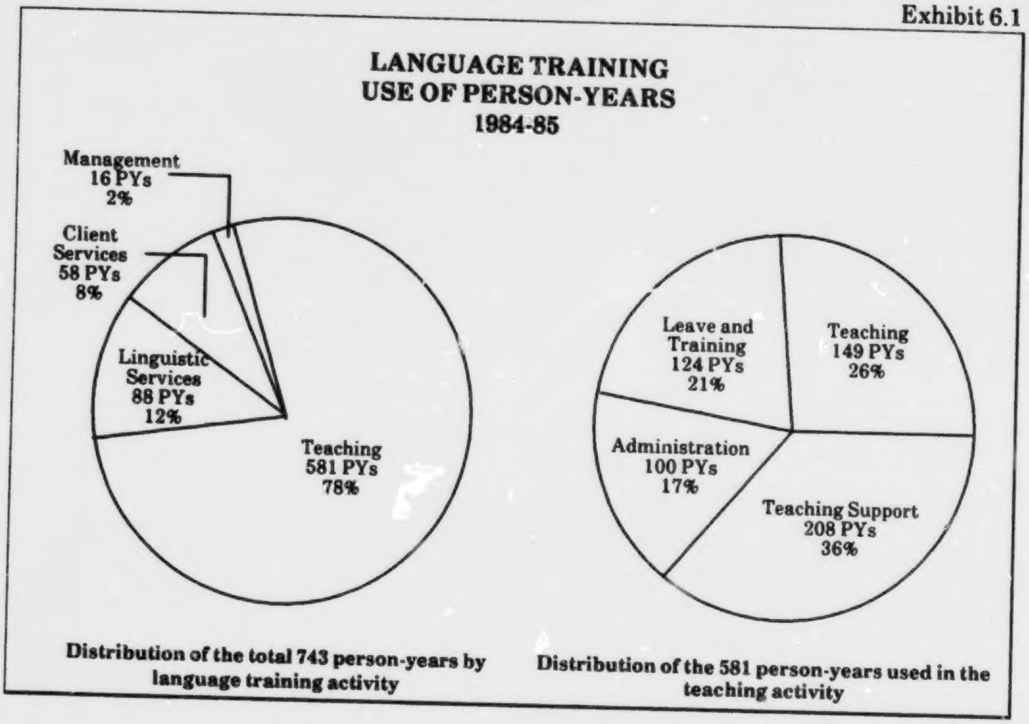
6.72 We looked at the management methods used in the units responsible for teaching and for linguistic services. The audit also included an analysis of the use of teaching resources.

6.73 **Teaching.** The Commission needs good planning and control tools to manage its resources in the face of a fluctuating workload. The tools the PSC has are satisfactory and working well. For example, in the centralized program, there is a mechanism for identifying the number of teachers available each week, the number of groups of students, and the number of students starting or finishing courses. Teaching resources are allocated on the basis of this information.

6.74 Overall, we observed that the total number of student-hours declined by about 20 per cent over the past three fiscal years. The decline is due partly to the fact that fewer conditional appointments to bilingual positions are being made and partly to the overall decline in staffing activity.

6.75 Despite this decline in the demand for its services, the Language Training Program Branch had continued to operate with virtually the same level of resources. As a result, the figures on resource use show that the efficiency of teaching programs has fallen by about 16 per cent. In other words, the existing complement of teachers is sufficient to provide an additional 300,000 student-hours. Conversely, the present number of student-hours – about 1.7 million – could be provided with 79 fewer person-years. These surplus resources have been devoted to preparation and other teaching-related activities, teacher training and developing new course options.

Exhibit 6.1



Distribution of the total 743 person-years by language training activity

Distribution of the 581 person-years used in the teaching activity

6.76 The surplus has resulted from several factors:

- the decline in the number of students;
- the number of situations where the Commission has to provide classes to smaller groups; and
- the difficulty of redeploying personnel while at the same time observing certain provisions governing working conditions set up through the teachers' collective agreement.

6.77 In September 1984, the Commission proposed new types of courses to respond to a changing demand and to make better use of its resources, but to date has not received an official response from the Treasury Board.

6.78 **Linguistic services.** The Linguistic Services Directorate (LSD) provides services to both internal and departmental teaching programs. Services include developing courses and devising ways of measuring students' progress.

6.79 We observed that precise objectives and priorities for the Directorate have not been defined. Nor does the LSD collect statistical and analytical data on the nature of requests for its services or keep a record of the criteria used as a basis for selecting projects. As a result, neither the Directorate nor the Commission can evaluate whether the work done was warranted or justify the 88 person-years devoted to these activities.

6.80 At the project management level, we found that LSD had established a series of steps to follow in carrying out projects. In general, the steps are both followed and documented during the planning and execution of the work. However, management information could be improved. Activity reports are used by LSD to communicate information about the projects completed during the current month and those planned over the short term. These reports, however, do not indicate the number of hours spent on the work, the number of people assigned, or the costs of the work in progress as compared to the planned resources and work schedule.

6.81 **The Linguistic Services Directorate should:**

- **set overall objectives for all its activities;**
- **assign priorities to them;**
- **keep a record of the criteria used in selecting projects;**
- **record the number and nature of requests it receives for its services; and**
- **measure progress on projects against forecast resource use and milestones.**

Commission's response: *The policies related to language training are currently undergoing review by Cabinet and could lead to fundamental changes to this function at the PSC. Accordingly, the impact of such changes will affect the relevance of this recommendation.*

Staff Development and Training

6.82 The training and development program offered by PSC is one element of the 1981 Treasury Board staff training policy. Under a 1982 agreement with the Board, the Commission is responsible for developing training courses and making them available to departments. The Board has responsibility for developing and evaluating federal training policy.

6.83 The budget for the PSC's training program accounts for about 10 per cent of all funds allocated by the federal government to training. The balance is divided among departments and administered by them. The Staff Development Branch is financed through a revolving fund and a subsidy from Treasury Board.

6.84 Our audit concentrated on the administration of the Branch and on the methods used to cost the courses it offers. We did not examine course content or the quality of teaching, nor did we look at the activities of the Centre for Executive Development at Touraine.

6.85 The Commission has achieved marked progress in the administration of training since 1981. The choice of courses offered has been rationalized and the human resources devoted to training have been reduced. The Commission has been able to move from a deficit in the revolving fund to a position where it is now recovering its costs.

6.86 For the past three years, the Commission has been using the systems approach to training to develop new courses and revise existing ones. The methodology describes each step that should be followed in designing, giving and evaluating a course.

6.87 Of the 97 courses available, 26 have been revised using this approach. We looked at three such courses to see whether the methodology had been observed and found that the main steps had been followed and documented.

6.88 The methods used to cost courses are satisfactory. Costing is essential, because the Commission recovers its costs by billing departments that use the services and through subsidies from the Treasury Board. Subsidies cover costs such as revising courses using the systems approach and extra expenses incurred as a result of the decision to maintain the Centre for Executive Development in Touraine.

Program Planning and Evaluation

6.89 The Commission has had an integrated corporate planning and control system since 1977-78. The system is composed of four parts – strategic planning, operational planning, operational review and post-control, which includes internal audit and program evaluation.

6.90 We found that certain elements of the PSC's system comply with Treasury Board Secretariat's Policy and Expenditure Management System and that the existing elements of the system are well integrated.

6.91 At the time of our audit, the Commission had not yet evaluated any of its programs, despite the fact that it has been eight years since Treasury Board issued its program evaluation policy and the Commission set up its integrated management system. The PSC has done some evaluation studies and management reviews, but only on some program components. Most of these studies lacked rigour and were based on information that was not assembled systematically.

6.92 We have already mentioned that responsibility for evaluating staffing policy was delegated to Treasury Board in 1982. In our opinion, the evaluation of staffing policy should be an integral part of the Commission's evaluation plan, as outlined in the Program Evaluation Guide issued by the Office of the Comptroller General.

6.93 The Commission has taken some steps toward setting up a program evaluation unit. The position of director was filled in January 1985, and the Commission is now looking for staff for the other positions.

6.94 **The Public Service Commission should finish assembling its program evaluation team and should integrate in its evaluation plan all evaluation activities, including the evaluation of staffing policies.**

> Commission's response: *The program evaluation function has defined and strengthened its resourcing requirements and is currently staffing to effectively conduct its role. Proposals to integrate evaluation activities have been developed and are in the process of discussion with PSC's partners in personnel management (Privy Council, Treasury Board, and Committee of Senior Officials).*

CUSTOMS CANADA

CUSTOMS CANADA

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7

CUSTOMS CANADA

Overview

7.1 Customs Canada pre-dates Confederation. It is one of the oldest government programs, based on legislation dating back to 1848. Customs is part of the Department of Customs and Excise; the Deputy Minister reports to the Minister of National Revenue.

7.2 The original objective of Customs was to raise revenue – many years before the concept of income tax was known in Canada. Other tasks have been added. The Department's current program objective is threefold and includes important aspects of protection:

- Ensure that all relevant duties, taxes and other charges are assessed, collected and, where appropriate, refunded.
- Control, for the protection of Canadian industry and society, the movement of people, goods and conveyances entering or leaving Canada.
- Protect Canadian industry from injury caused by unfair foreign competition. This includes the actual or contemplated importation of dumped or subsidized goods.

7.3 Customs is primarily an enforcement agency. It administers some 70 legislative acts, most of them on behalf of other government departments. Examples are Immigration, National Health and Welfare, Agriculture and Statistics Canada.

7.4 In 1984, Customs collected about $5 billion in revenue – nearly 9 per cent of the government's total revenues. To do so, it processed some 12 million cargo control documents. It also processed close to 80 million international travellers that entered Canada. About half of these were returning Canadians. The others were predominantly visitors, with 3 per cent of them coming from overseas. The bulk of Customs activities occurs at inland ports and along our 9,000 km border with the United States. People and commercial goods enter Canada at highway crossings and airports and by rail and water. Many small shipments of goods are handled through Canada Post.

7.5 There are over 300 Customs Ports in Canada, including 120 highway border crossings, 17 international airports and 145 marine ports. In addition, Customs deals with nearly 1,500 warehouses where commercial goods can be unloaded and cleared or kept in bond.

7.6 Customs is expected to respond quickly and effectively to changes in its environment, to preferences and new practices on the part of the public, and to changes in legislation and government direction.. Some issues are technological, such as the introduction of automated office procedures by importers and brokers. Others are economic, such as the tendency of business to keep small inventories and import goods rapidly on demand. Still other issues are socio-economic, such as attempted traffic in prohibited drugs and the importation of pornography.

7.7 While Customs must be rigorous in enforcing the various Acts it administers, it must also be sensitive and responsive to the legitimate needs and expectations of travellers and business people. It would be intolerable – and prohibitively expensive – to have Customs hold up travellers or commercial goods by intensive inspection of every person and shipment that crosses the border. Intelligent selection, prudent examination and the facilitation of voluntary compliance to the greatest extent possible as well as monitoring of results are therefore key aspects of successful Customs operations.

7.8 To carry out its varied and complex tasks, Customs had a budget of $281 million in 1984-85. Almost nine-tenths of it was used to pay a staff of about 7,800 people. Of these, nearly 4,750 are uniformed Customs Officers. The rest are specialists in anti-dumping and adjudication matters, managers and supervisors, technicians, instructors and other support staff.

Audit Scope

7.9 Our first comprehensive audit of Customs and Excise was done over a three-year period. We reported on Customs in 1978, on Excise in 1979 and on departmental management systems in 1980. The current audit follows that pattern. This year, we are reporting on the activities of Customs. In future years, we will examine the Excise Branch, and then corporate management functions such as personnel, finance, administration, training and EDP systems.

7.10 In 1978, our audit of Customs focused on the status of revenue control systems. It examined whether existing procedures were sufficient to ensure an effective check on the assessment, collection and proper allocation of revenue.

7.11 The current audit expanded on that scope. It included a review of Customs' delivery of its mandate, particularly with respect to operational activities in Customs Ports. It also included a review of those systems and procedures that are in direct support of Customs' operational activities. Finally we looked at some of those departmental management principles and practices that affect overall operations.

7.12 An important intended effect of Customs' work is the protection of Canadian industry through assessing and collecting duties on imports. However, Customs is not responsible for setting policies on duties, taxes and tariffs. Nor is it responsible for measuring the effect its protective work has on Canadian industry. This rests outside Customs and Excise, and we therefore did not review the procedures to measure overall effectiveness of the Customs program.

7.13 The theme of our audit was "Delivering the Customs Mandate". We posed six sets of broad questions to guide our examinations:

- **Departmental management principles and practices:** Has the Department articulated and communicated a statement of principles that guide management and staff in carrying out the business of Customs? Does management take into account the changing needs and expectations of its public? What relationship exists between management and the Customs Union?
- **Converting legislation and interdepartmental agreements into operating procedures:** Does the Department have in place a mechanism that systematically reviews legislation and interdepartmental agreements with a view to producing appropriate operating procedures for use in Customs operations?
- **Service to the public:** Does Customs make reasonable efforts to inform the public about the need to comply with the law and how to go about it – even before travellers and importers appear at Customs for inspection and processing?
- **Facilitating and controlling the entry of international travellers:** Is Customs sensitive and responsive to the needs and expectations of travellers, at the same time making reasonable efforts to detect and prevent illegal entries?
- **Facilitating and controlling commercial imports:** Does Customs have procedures in place to gather information about the needs and expectations of business and commerce? Does it take appropriate measures to collect the correct revenue and to prevent illegal entries?
- **Measuring enforcement results in Customs port operations:** Does the Department have objective and reliable information about compliance in its port operations, and about its own success in detecting non-compliance?

7.14 Wherever applicable, we compared the current status of an activity to its status at the time of our 1978 audit.

Observations and Recommendations

Departmental Management Principles and Practices

7.15 Customs management has established a climate in the Department that fosters co-operation and teamwork; it is professional and businesslike. We concluded this after interviewing and observing at work about 200 Customs Officers in various locations across Canada.

7.16 **Statement of operating principles.** Management makes a clear distinction between Customs' legal mandate, which is governed by legislation, and its approach to doing business, which is an expression of management principles. These principles have been articulated and communicated in a statement of operating principles that guides departmental policies and activities.

7.17 For example, Customs operates on the principle that the vast majority of the public will comply with the law, when they are informed and when the law is applied equitably. Accordingly, Customs facilitates and encourages voluntary compliance. At the same time, it pursues selective enforcement activities to detect individuals who willfully attempt to evade the law for personal gain.

7.18 The Department has also published a code of the conduct and appearance it requires of its employees. The code outlines both expected and unacceptable behaviour, including the responsibilities of employees to the public.

7.19 These publications provide a basis for establishing and maintaining the professional and impartial conduct of Customs' business throughout Canada.

7.20 **Accountability contracts.** Management has introduced and is sustaining a system of accountability contracts. All management staff are included – from assistant deputy ministers to supervisors in Customs Ports. Accountability contracts are agreements between bosses and the managers who work for them. They are written for a one-year period and form the basis for the managers' activities and efforts during that year.

7.21 The accountability contract contains specific achievement goals to which both parties have agreed. At the time of our audit, some typical statements were:

- Achieve an efficiency improvement of 10 per cent in Cargo processing.
- Increase the efficiency of entries processing by 2 per cent while maintaining the present enforcement rate.

7.22 We noted that management staff at all levels were conscious of these goals in their daily working environment. The reason for this is, first, that the accountability contracts are a promise of performance and, second, that they form the basis of the annual appraisal process at the end of the year.

7.23 We recognize that there is an inherent difficulty with specific agreements such as these. Tasks that are not spelled out may get neglected in favour of those that are specified. On balance, however, we find the practice of having annual accountability contracts worthwhile. It enables management to emphasize key areas and change priorities effectively throughout the Department.

7.24 Since our audit, the Department has removed certain quantitative achievement targets from some accountability contracts. It is too early at this time to assess the effects of this change.

7.25 **Relationships with the Customs Excise Union.** In Customs, the relationship between management and union is particularly significant. The Department is heavily unionized. We interviewed senior managers and members of Staff Relations in this regard, and we talked with the President of the Customs Excise Union.

7.26 At the time of our audit, we noted a professional and objective relationship between management and union. It is characterized by open-mindedness, with a focus on problem resolution on both sides. For example, management and the union consult during the process of developing new policies and practices; they have been fully discussed by the time they are announced.

7.27 **Communications with clients and the public.** Customs needs to be aware of the needs and expectations of the people it serves. We examined what efforts management makes in this area.

7.28 We found that the Department is following a policy of sensitivity and responsiveness. For example, management has recently commissioned a communications study to determine the views of the public. The Department intends to use the results of the study to review and possibly modify facilities and administrative procedures to make it as convenient as possible for members of the public to comply with the law.

7.29 With respect to recurring clients such as customs brokers, our interviews with brokers and departmental managers indicated that the channels of communications are open and are being used regularly. Brokers appreciate this and, as a result, industry groups can plan better for their responses to and their contacts with Customs.

7.30 **Priorities Committee.** The Department has a Priorities Committee, and members of the Committee indicated that it fulfils its purpose and functions well. A more detailed review of the Department's committee structure will be undertaken when we audit the corporate management functions.

7.31 The departmental Priorities Committee comprises the four Assistant Deputy Ministers and the Director General of Personnel. It is chaired by the Assistant Deputy Minister, Corporate Management. Its purpose is to review and challenge proposals for new or expanded activities or for additional resources that one of the Branches might put forward. Its outputs are recommendations – unanimous if possible – to the Deputy Minister. In the Priorities Committee, Assistant Deputy Ministers act not so much as Branch heads, but rather as members of the corporate senior management team that determines whether a proposal fits in with the overall direction and management philosophy of the Department.

Converting Legislation and Interdepartmental Agreements into Operating Procedures

7.32 Customs is responsible for administering some 70 legislative acts in whole or in part, mostly on behalf of other government departments.

7.33 For Customs to administer legislative acts, it must convert them into working procedures that are suitable for application in its operating environment. Also, in cases where Customs administers acts on behalf of other departments, it is preferable that the client departments agree with these procedures. The two departments should come to an understanding of what Customs is expected to do, what the client department will do, how the respective efforts will be monitored, what standards will apply, and who will judge results.

7.34 Accordingly, our audit examined whether Customs has a reasonable mechanism for systematically negotiating interdepartmental agreements and for reviewing legislation with a view to producing appropriate operating procedures for use in Customs operations.

7.35 **Interdepartmental agreements.** In 1978, Customs had no formal approach to establishing working relationships with client departments. Expectations of clients were not defined clearly and Customs had no formal standards for preparing, reviewing and approving interdepartmental agreements. In 1981, Customs established a formal approach to this activity.

7.36 The Department uses about eight person-years to negotiate agreements with client departments. Typically, one person (usually at a Director level) is assigned responsibility for negotiating with a specific department. The Director may be in contact with many other officials in Customs before the agreement is finalized.

7.37 We noted that difficulties typically arise in the negotiating process. There is sometimes an inability on the part of client departments to specify what levels of performance they expect Customs to provide. The Departments of Agriculture and National Health and Welfare, for example, were reluctant to identify a minimum acceptable rate of success for preventing the entry into Canada of infected products or people. The reason for this reluctance is understandable. The entry of even one infected product or person could lead to an epidemic with serious consequences for the country. Therefore, a standard of detection of even 99 per cent may not be adequate. On the other hand, it would be prohibitively expensive – not to mention unacceptable for other reasons – to try to inspect 80 million international travellers annually to the level of intensity that would guarantee 100 per cent detection.

7.38 This leads to another problem. Since the level of performance is not specified, the required resources cannot be determined. Further, setting standards and measuring performance can be expensive in terms of the cost of the activity being measured. Finally, there is a reluctance to set performance indicators because they can easily be interpreted as "quotas".

7.39 Toward the end of our audit, the Department, in conjunction with its client departments, changed to a different approach. Instead of going through the lengthy process of establishing and negotiating performance standards in terms of results achieved, it has negotiated a set of "essential activities" that will be performed by Customs on behalf of its various client departments. Customs has now completed such essential activities agreements with 15 of its 17 client departments, including Agriculture and National Health and Welfare. Because of the complexity of this issue, and because the change was made toward the end of our audit, we did not have the opportunity to evaluate this approach.

7.40 **Legislative acts.** At the beginning of 1983, the Department formalized its system for preparing and disseminating procedures and directives. The process was designed to ensure that the requirements in legislation pertaining to Customs and its client departments are appropriately converted into operating procedures and directives. The series of revised D-Memoranda, R-Memoranda and other manuals resulting from this process represents a comprehensive set of operating directives for the use of Customs Officers throughout Canada.

7.41 Our field interviews indicated that the application of directives is not always uniform. Customs Officers have discretion in applying procedures and in determining the level of responsiveness in any particular situation. This discretion is essential for intelligent facilitation, detection and enforcement work. But it should not lead to different applications of directives at different places, at different times and with different Officers.

7.42 One example of inconsistency is in the area of commercial importations. When importers request clearing of goods after normal working hours, Customs levies a special service charge because an Inspector has to be called out. The service charge is also levied at ports that are routinely staffed 24 hours a day, 7 days a week.

7.43 We found that not every examination outside regular dayshift hours in these 24-hour ports results in the special service charge being levied. The decision to levy the charge is made by the inspecting Officer, but not every Officer levies it consistently. The result for the importer or broker is that charges are not predictable – not only from port to port, but also within the same port.

7.44 **The Department should intensify its review of the consistency with which directives are being applied in the field, and it should take corrective action where indicated.**

> *Department's response: One of the objectives of the Department's directives revision activity of 1978 was to ensure that all directives are written so as to permit uniform interpretation and application. The Department believes that it has met this objective.*

If a policy or procedure is developed which allows for discretionary application by Customs Officers, the extent of that discretion is described in the Directive. In the absence of a specific reference to discretionary application, no discretion is permitted.

To reinforce current policy a monitoring program will be established by February, 1986 to verify consistency of application of directives.

Service to the Public

7.45 Parliament and government have placed increasing emphasis in recent years on the quality of services delivered to the public. This is partly because of public perception that the government bureaucracy has become remote and indifferent. It is also because of technological advances that now make it possible to respond quickly to public expectations in many areas of society. Accordingly, we reviewed Customs activities associated with providing services to the public.

7.46 **Management direction.** Our review focused on the directions given by departmental management. We found that Customs recognizes service to the public as an important aspect of mandate delivery. The Minister has stated that the departmental enforcement mandate is being balanced with efforts to improve service to the public, and that service to the public is a major element in departmental strategy.

7.47 This direction is reflected in the Department's statement of operating principles. The statement requires that departmental staff be aware of changing public attitudes, taxpayers' concerns, new technology and commercial practices, and social changes in general if program delivery is to be responsive.

7.48 Beyond looking at management direction, we reviewed the Department's practices of communicating information to the public. We also reviewed the facilities through which Customs services are provided, and we reviewed the interaction of Customs Officers with the public.

7.49 **Communicating with the public.** Customs operates on the principle that the vast majority of the public is willing to comply with the law when people are informed about it and when it is applied equitably. Customs has therefore established channels to disseminate information and to communicate with the public.

7.50 Every Customs Port acts as such a channel. Information is displayed, inquiries are answered and in some cases courses are offered to explain Customs practices, changes in legislation and new procedures.

7.51 Another channel of communication is the departmental Public Relations Branch. Its Director is a member of the Management Committee, which indicates the importance attached to this work. The Branch has prepared information packages and

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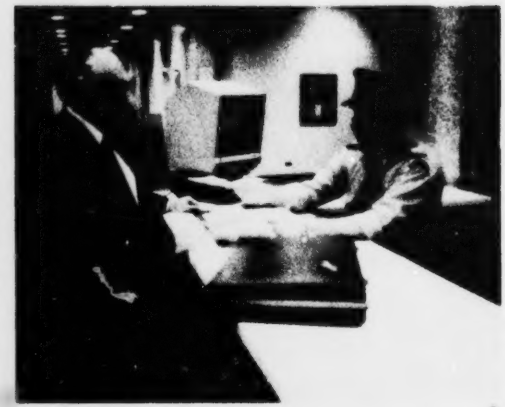
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An airline passenger is met at the Primary Inspection Line by a Customs Officer who reviews the disembarkation card (1). The Officer conducts a brief interview and, if necessary, refers the traveller for a more detailed Secondary Inspection (2). At Secondary Inspection, further questions are asked and the traveller's baggage is examined (3 to 6). If undeclared goods are discovered, a penalty is imposed, as specified in the Customs Act.

disseminated them to the general public. It has successfully negotiated with motor league magazines to include a reproduction of the Customs publication "I Declare". It has also launched, in collaboration with TV Ontario, a program for use in schools that furthers the understanding of Customs operations.

7.52 A third channel for communicating Customs information is the Canadian Association of Customs Brokers. The Association comprises about 400 customs brokerage firms which handle over 90 per cent of commercial importations into Canada. The Department has made it a practice to discuss proposed changes in Customs procedures with the Association to facilitate implementation and encourage compliance.

7.53 **Service facilities.** The Department operates over 300 Customs Ports whose sizes vary strikingly. There are large ports such as Windsor, Ontario, where over 12 million travellers crossed into Canada last year. There are also small, one-Officer stations that process only a few entries each day.

7.54 We reviewed the facilities at a dozen ports from Vancouver to Halifax from a service-to-the-public point of view. We found that signs and directions were adequate. In ports that have many travellers whose mother tongue is other than English or French, there are signs in other languages. We also found that Customs employs interpreters in such ports. At Vancouver International Airport, for example, interpreters are available to communicate with travellers arriving from the Far East.

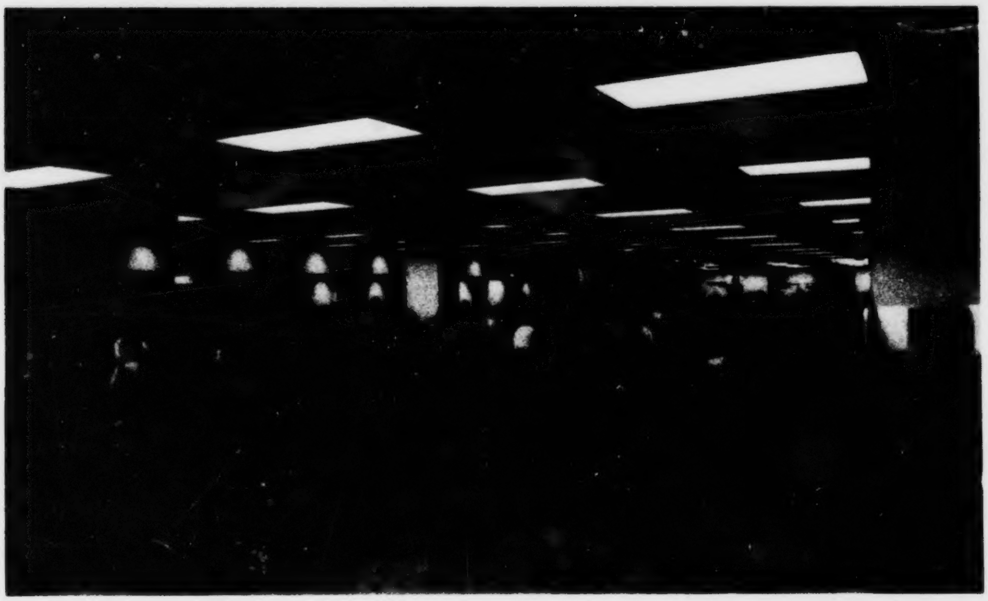
7.55 **Service process.** We reviewed the actual process of Customs Officers being in contact with members of the public. In their work, Customs Officers must on the one hand facilitate compliance with the law and on the other enforce that compliance, depending on the situation at hand. In both cases, however, Customs Officers must be sensitive and responsive to the needs and expectations of the public. Our observations indicate that Customs Officers are generally treating the public with courtesy and are following the published code of conduct.

Facilitating and Controlling the Entry of International Travellers

7.56 Over 86 per cent of the travellers entered Canada at highway border crossings. Some 10 per cent arrived at airports. The rest came by train or boat.

7.57 Travellers are obliged to report to Canadian Customs Officers for questioning and for examination of accompanying baggage. The cost of the Customs passenger program in 1984 was about one dollar per traveller, or $80 million.

7.58 The Customs passenger program is designed to ensure that travellers comply with the legislative acts that Customs administers. The underlying purpose is protection. Canada seeks to protect its economy and the health and social well-being of its residents by controlling the movement of people, goods and vehicles across its borders.



International travellers at airports typically arrive in bursts, rather than in a steady stream. The top picture shows the arrival area at Pearson International Airport in Toronto at 4 p.m. on a day in March 1985. The picture below shows the same area half an hour later, after simultaneous arrival of two jumbo jets. Customs' goal is that no traveller should have to wait more than 30 minutes to complete Primary Inspection. Sometimes that goal is not achievable.

7.59 Detecting items such as firearms, narcotics, pornography and agricultural hazards, as well as terrorists and other illegal migrants is a major part of Customs' work and part of its protection function.

7.60 This purpose is not widely recognized by the public. Many people perceive that Customs acts mainly as a collector of revenue. This was indeed the case until income tax was introduced early this century. Today, the revenue collected by Customs from international travellers is small in comparison to total revenue.

7.61 Resulting from our audit of the Customs passenger program, we are reporting on its two major aspects: processing travellers who enter Canada by commercial airlines, and processing those who arrive by motor vehicle.

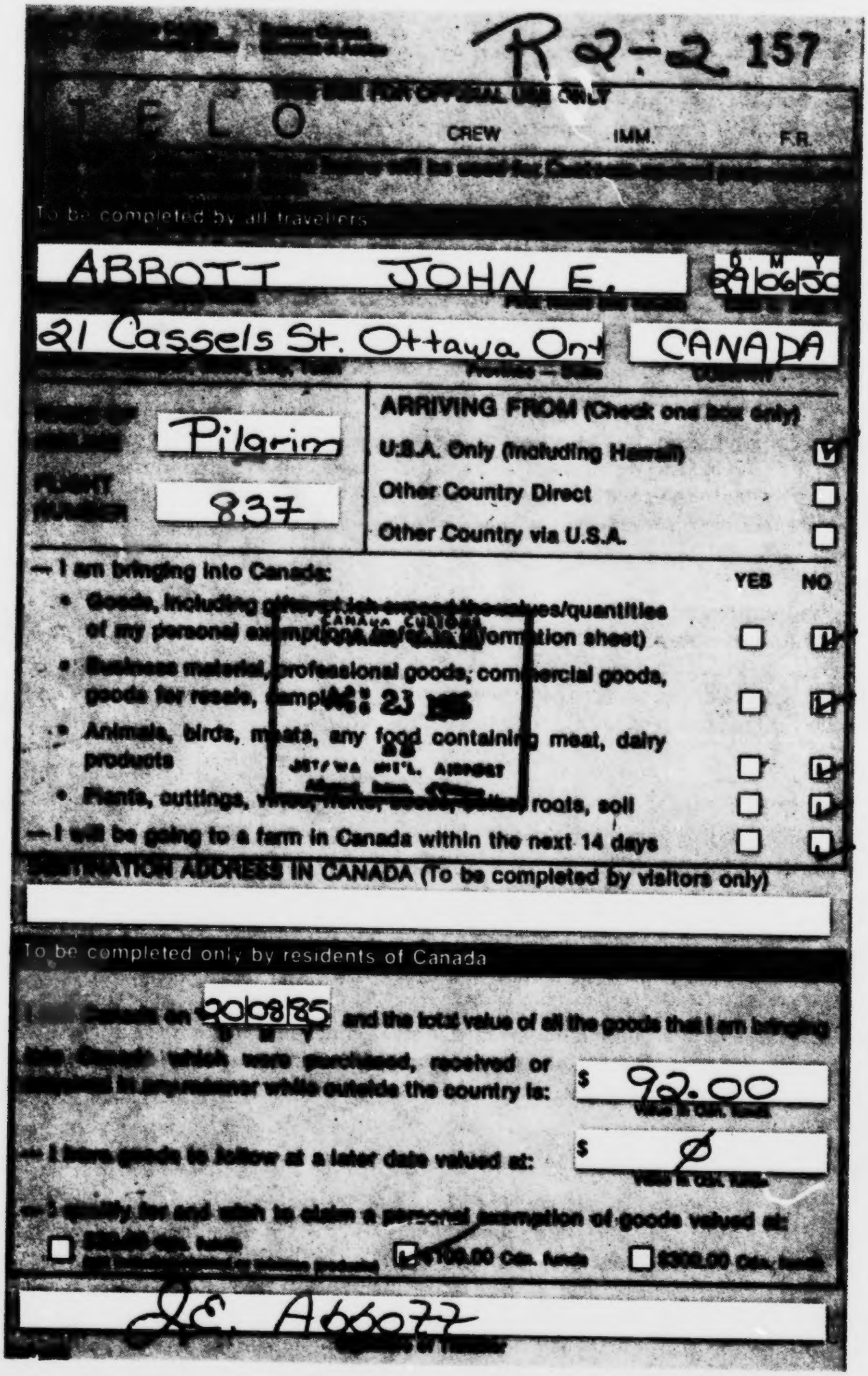
7.62 **Traveller processing at international airports.** Airline passengers are asked to complete the Customs Declaration Card before disembarking in Canada. The card asks questions about the trip, goods brought back, and the value of the goods. The traveller can claim a personal exemption and then signs the card. When completed, the card is in effect a written Customs declaration.

7.63 After travellers disembark from the aircraft, they go through the Primary Inspection Line. A Customs Inspector reviews the disembarkation card and conducts a brief interview which on the average takes about half a minute. This interview is designed to provide the traveller with an opportunity to comply with Canada's entry requirements. It is also designed to identify those travellers and goods that require a more detailed or Secondary examination for Customs, Immigration, Agriculture or Health purposes. Customs Inspectors have discretion to ask any questions they consider necessary in cases where suspicion arises, especially if the traveller fits a profile of a non-declarer, drug smuggler or terrorist.

7.64 The speed with which travellers can be processed in the Primary Inspection area depends on the number of travellers and on the number of Officers and booths available. The Department's objective is that no traveller should have to wait more than 30 minutes to complete Primary Inspection. We noted that this objective is met in most cases. There are circumstances, however, such as the unexpected simultaneous arrival of several aircraft, that affect processing time. In such cases, several hundred travellers may be waiting for Primary Inspection in the Customs reception area. The waiting time for some of them will then exceed the objective of 30 minutes maximum.

7.65 In most cases, the Primary Inspection process does not cost travellers any time at all, because it takes place during the time they would normally wait until baggage is unloaded from the aircraft.

7.66 If there are reasonable grounds to assume that travellers do not comply with the law, they are asked to undergo some form of Secondary Inspection. The secondary



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[illegible] FOR OFFICIAL USE ONLY

T E L O CREW IMM. F.R.

To be completed by all travellers

ABBOTT JOHN E. D M Y 29|06|50

21 Cassels St. Ottawa Ont CANADA

Pilgrim

837

ARRIVING FROM (Check one box only)

U.S.A. Only (including Hawaii) ☑

Other Country Direct ☐

Other Country via U.S.A. ☐

— I am bringing into Canada: YES NO

- Goods, including [illegible] the values/quantities of my personal exemptions [illegible] information sheet) ☐ ☑
- Business material, professional goods, commercial goods, goods for resale, samples ☐ ☑
- Animals, birds, meats, any food containing meat, dairy products ☐ ☑
- Plants, cuttings, [illegible] roots, soil ☐ ☑

— I will be going to a farm in Canada within the next 14 days ☐ ☑

CANADA CUSTOMS
23
INT'L. AIRPORT

DESTINATION ADDRESS IN CANADA (To be completed by visitors only)

To be completed only by residents of Canada

[illegible] Canada on 20|08|85 and the total value of all the goods that I am bringing into Canada which were purchased, received or [illegible] while outside the country is: $ 92.00

— I have goods to follow at a later date valued at: $ 0

— I qualify for and wish to claim a personal exemption of goods valued at:

☐ [illegible] Cdn. funds ☑ $100.00 Cdn. funds ☐ $300.00 Cdn. funds

J.E. Abbott

Airline passengers fill out disembarkation cards before landing in Canada. When completed, the card is a written Customs declaration. Its introduction in 1983 has speeded up processing by reducing oral questioning of travellers.

Courtesy Customs Canada

examination is designed to verify compliance and to detect and rectify non-compliance by travellers.

7.67 When a Primary Inspector refers a traveller for detailed examination to the Secondary Inspection process, it is not always the case that an infraction is detected by the Secondary Inspector. During our interviews, Customs Officers indicated that they could probably improve their performance if they received prompt feedback about the results of their referrals. We noted that in some locations Inspectors were telling each other informally about how "successful" their referrals are. This was also identified by a departmental study. The Department has indicated that it will institute a systematic feedback mechanism about "success" rates from Secondary to Primary Inspectors.

7.68 A Secondary Inspection varies from a cursory check of a selected piece of luggage to a complete search of all goods and effects. The intensity of the examination may increase as a result of initial findings. For example, undeclared goods found in one piece of baggage may indicate that additional goods are concealed elsewhere. In a small number of cases, where there is reasonable cause, there may be a body search.

7.69 If an examination reveals undeclared goods, the Customs Officer may invoke one of the penalties detailed in the Customs Act. Not all offences are of equal gravity and they therefore do not attract equal penalties. The most severe penalty, usually applied when smuggled goods are detected, results in the traveller having to pay not only duty and taxes, but also the value of the goods in Canada.

7.70 When illicit narcotics are found, or when prosecution is warranted, the Customs Officer will place the traveller under arrest and call in the appropriate police agency to assist in further action.

7.71 The existence of the Secondary Inspection process may constitute a significant incentive for travellers to comply with the law. We noted a departmental evaluation, however, that found that about one-quarter of air travellers were not aware of the Secondary Inspection process. The disembarkation card, for example, does not warn the traveller of the possibility that there may be a detailed secondary examination. The Department has developed an action plan that outlines steps designed to increase public awareness of the Secondary Inspection process.

7.72 **Traveller processing at highway border points.** The majority of travellers to Canada arrive by highway in their own vehicles and are entering from the United States. In contrast to the sometimes crowded and stressful arrival patterns of air travellers, highway travellers typically arrive in a more steady pattern. Peak travel periods can normally be predicted in advance. Examples are the daily return of commuters to Windsor from Detroit, or the traffic between Seattle and Vancouver during the July 1/July 4 long weekend. Knowledge of these traffic patterns allows Customs managers at highway border points to assign more staff, if available, to cope with high volumes.

Customs Canada

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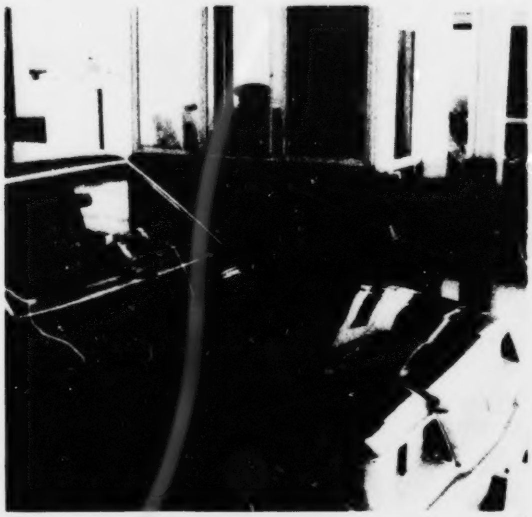
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At busy border ports, cars crossing into Canada usually arrive in a steady stream and are processed readily by Customs. During peak periods, however -- on long weekends for example -- line-ups may create lengthy waiting periods (1). Customs Officers ask passengers in each car about citizenship, purpose and duration of visit and goods that may have to be declared (2). Secondary Inspections and searches are carried out when a traveller is suspected of concealing goods (3). To carry out the job effectively, a Customs Officer must know many directives, rules and instructions (4).

7.73 This is not to say that delays and extreme fluctuations do not occur at land borders. Staff and facilities are allocated to each location on the basis of average annual traffic flows, with additional seasonal staff during peak periods. But there is a limit to which traffic can be processed without delays. For example, at the Peace Bridge in Fort Erie, Ontario, opposite Buffalo, New York, no more than two or three Primary Inspection booths are required to process the traffic during off season periods. On the other hand, during peak periods, even if all 23 Primary Inspection booths are staffed, the volume of traffic can cause vehicles to be backed up right across the bridge.

7.74 Travellers approaching the Customs inspection point simply stop at a booth. They normally remain in their vehicle while the Customs Officer conducts the primary interview. In contrast to the primary interview at airports, which is aided by the disembarkation card, the highway interview is entirely oral. Travellers who require further examination or completion of documents are given a secondary referral slip and are directed to report to a Customs Officer in the Customs building. A Secondary Inspector then determines what documents are required, what duties and taxes must be paid, and whether the vehicle and its contents are to be examined.

7.75 The principle of Primary and Secondary Inspections is the same for all modes of traffic. All travellers are given the opportunity to declare voluntarily the goods in their possession at the Primary Inspection point. Secondary Inspections and searches are carried out when a Customs Officer has reasonable grounds to believe that a traveller is concealing goods or has otherwise not complied voluntarily with the law.

7.76 During our audit, and particularly during our interviews with about 200 Customs Officers, we noted a certain amount of uncertainty on their part. This related to their perception of what the balance should be between facilitating the movement of travellers - both air and highway - and taking enforcement action. In other words, should Inspectors primarily concentrate on sensitivity and responsiveness to travellers, or should they concentrate on detection, deterrent and enforcement? Both principles must coexist in the inspection process, yet the uncertainty of Inspectors suggested that some clarification was in order.

7.77 Customs has recognized this problem. In March 1985, the Department issued instructions that were designed to clarify to all its Officers the roles of enforcement and of facilitation. We are unable to report whether the instructions have achieved the desired effect because our interviews were, for the most part, completed before the instructions were issued.

7.78 **The Department should monitor the application of instructions on the roles of enforcement and facilitation to determine if the intended results are being achieved.**

Department's response: *The Department will commence an annual review of the application of these instructions in 1986-87.*

Facilitating and Controlling Commercial Imports

7.79 During 1984, Customs collected about $5 billion, some 9 per cent of total government revenue. The Department collected the bulk of this amount in the form of duties and taxes on commercial goods imported into Canada. To do so, Customs processed some 12 million cargo control documents.

7.80 The Customs commercial program is designed to facilitate the entry of permitted goods into Canada, together with assessing and collecting the correct amounts of duties and taxes. It is also designed to detect and deter prohibited entries and to verify that importers comply with requirements of the law.

Trucks awaiting Customs inspection and clearance at Secondary Compound, Windsor, Ontario. About 3,000 trucks per day cross over the Windsor bridge into Canada. It would not be practicable for Customs to inspect each one in detail (see paragraph 7.84).

7.81 In 1978, our audit focused primarily on this commercial importations program, and we described it in detail at that time. In our current audit, we were therefore able to refer to our 1978 findings in reviewing the Department's operations.

7.82 We were also able to refer to the results of a number of studies and internal audits the Department has conducted in this area since 1978. We did so whenever we could, substantiating those points during visits to headquarters and the field that were relevant to our audit.

7.83 Our findings are set out in four sections, corresponding to the main areas of Customs activities in the commercial program: control over cargo; inspection of goods; assessment of duties and taxes; and collection of revenue. In a fifth section, we report briefly on recent developments of Customs' computerized Cargo Entry Processing and Collection System (CEPACS), which is an integral part of the commercial program. We did not audit CEPACS in detail, as it will be reviewed during the third year of our current audit, together with the Department's other corporate management and support systems.

7.84 **Control over cargo.** When a shipment of goods arrives at a Customs port, the carrier must file a Cargo Control Document with Customs. It describes the quantity, type and destination of the goods. With this document, Customs establishes an inventory record that becomes the basis for inspection, payment of taxes and duties, and ultimate release to the importer.

7.85 Our 1978 audit noted fundamental weaknesses in the manual procedures for establishing control over the receipt, matching, disposition and physical security of documents.

7.86 With the national introduction of Core CEPACS, discussed later beginning at paragraph 7.107, about 85 per cent of Cargo Control Documents are now processed electronically. This has eliminated the manual processes of controlling, matching, distributing and physical storage of documents.

7.87 However, a departmental study has found that there are problems in the present system with unsupervised acquittal and deletion of unmatched cargo control documents. Because adequate control over documents is fundamental to the system, we are concerned about this area.

7.88 **The Department should ensure that unmatched Cargo Control Documents are properly acquitted, and that proper supervision is maintained over the process.**

> *Department's response: The Department agrees with this recommendation and has planned several short and long-term systems changes which will significantly reduce the incidence of unmatched Cargo Control Documents in the future.*

7.89 Where duties and taxes are not paid at the port of entry, shipments are sealed and then transported by the carrier in bond to an inland clearance point. At that point, Customs inspects the seals to verify that they are intact. Carriers that meet certain criteria are designated as Post-Audit Carriers. They are permitted to move goods inland under their own guard without the formal sealing process.

7.90 A recent departmental study indicated that 40 per cent of air cargo imported into Vancouver International Airport by Post-Audit Carriers was not being reported to Customs at the time of entry as required by law.

7.91 Such non-declaration could be significant. If goods are not declared, Customs cannot inspect for health hazards and dangerous products. Also, revenue could be lost.

7.92 The Department has conducted further investigations and determined that the air carriers in question did report the imported goods – but at the point of final destination, and that this is permitted under departmental regulations. Nevertheless, the Department is making efforts to have air carriers declare all goods at the point of first entry, as is already the case for the highway, rail and marine modes of traffic. To that end, the Department is contacting the airlines involved and their agents to ensure proper reporting. Also, it is planning consultations with the International Air Transport Association to have all airlines report imported goods at the point of first landing.

7.93 **The Department should regularly verify, for all modes of transport, compliance with the requirement to declare goods being imported.**

> *Department's response: The Department verifies the compliance of the declaration of goods carried in all modes of traffic by conducting off-load examinations on a selective basis both at border locations and inland destinations. The Commercial Enforcement Reporting System, more commonly referred to as the A28 program, is in place for the highway, rail and marine modes. Negotiations are under way between the Department and the transportation companies to establish procedures that will foster compliance in the air mode.*
>
> *The Department will continue to ensure that compliance checks are maintained and that existing programs are enhanced.*

7.94 In 1978, one of the weaknesses we noted in the post-audit procedures was that a team of 7 auditors cannot adequately audit the records of approximately 120 Post-Audit Carriers.

7.95 The number of Post-Audit Carriers has increased from 120 to 170, and the present audit staff is 5 persons. Thus, the audit cycle is longer now than in 1978, and therefore even less adequate.

7.96 **The Department should ensure that an adequate level of audit coverage of Post-Audit Carriers is maintained.**

> ***Department's response: Since 1978, the Department has implemented improvements to its methods of selection for the audit of Post-Audit Carriers. Through these and future planned improvements, the Department will ensure an adequate level of audit coverage is maintained.***

7.97 **Inspection of goods.** Goods are inspected to prevent entry of prohibited or restricted products into Canada and to ensure that the proper rate of duty and tax is paid. An effective inspection function detects and deters unlawful importations and verifies the quantity and description of goods. To verify compliance and detect non-compliance efficiently, a system has to identify high risk shipments and potential non-compliers. To deter unlawful importation, an adequate number of shipments must be examined so that importers feel their goods could be selected for examination. To assist in improving information about compliance, results of all examinations should be monitored.

West coast container traffic is concentrated in Vancouver. After containers are unloaded from boats, they are stored on the container dock. Customs must be selective in deciding which shipments to choose for detailed inspection (see paragraph 7.97).

7.98 Our 1978 audit indicated that there were no formal processes in place to select high risk shipments. Nor was there a statistically valid selection system for monitoring the compliance rate.

7.99 During the current audit we found that commercial importations have increased by 26 per cent since 1978 while the number of examinations has decreased by 48 per cent. Therefore, fewer examinations are being conducted relative to importations. We also noted that the ratio of forced payments and seizures to examinations has more than doubled. This could be the result either of an increase in non-compliance or of improved inspection techniques.

7.100 The Department has conducted various studies in these areas. However, Customs does not yet have a formal system in place to identify high-risk shipments, or a statistically valid selection system to monitor the rate of compliance. In an environment of increasing importations and limited resources, it is important that the Department be able to identify high-risk importations. As well, without monitoring compliance rates, it will continue to be difficult for the Department to determine whether its efforts to improve inspection methods and procedures are successful in detecting non-compliance.

7.101 **The Department should as soon as practical establish a formal system to identify and select high-risk shipments, and a statistically valid selection system to measure the compliance rate of importers.**

> Department's response: *The Department recognizes the need to establish a formal risk identification and selection system for the inspection function. As part of the overall development of a new Customs commercial system, the Department has completed development and will pilot test this fall an automated Release Support System (RSS). The RSS will provide Customs Inspectors with access to on-line automated profile information on importers and commodities. This will permit Customs Inspectors to be more selective by focusing their attention on those high risk shipments requiring physical examination or intensive documentation verification, while allowing the large majority of lower risk shipments to be released more quickly. The RSS will also randomly select importers' shipments for data verification or physical examination. The results of these examinations will be input into the system for purposes of generating operational and performance reports. The question of compliance rate is addressed in the response relating to Measurement of Enforcement results in Customs Port Operations. The Department is currently looking at the possibility of accelerating national implementation of the automated RSS in view of both the recognized need for a formal risk identification and selection system and the government's person-year and cost reduction initiatives.*

7.102 **Assessment of duties and taxes.** In the previous section, we noted that the inspection function could be improved through a formal system of identifying and selecting high-risk shipments. A similar system might be applied in the assessment function. It would result in perhaps fewer but almost certainly more effective assessments. That is to say, the process could be more efficient and also more effective. A precondition would be the existence of an adequate risk profiling system of importers and commodities.

7.103 The Department is aware of this. It is planning improvements in the assessment function through testing a high-risk profiling system as part of ALERT (the Automatic Lookout, Enquiry and Report system). ALERT is now operating as a pilot project in Calgary. There is at present no certainty when a profiling system will be introduced operationally.

7.104 **The Department should, as soon as practical, provide a profiling system to assist Commodity Specialists and Dominion Customs Appraisers in selecting high-risk entries for assessment.**

Department's response: The Department recognizes the potential improvements in efficiency and effectiveness in the assessment function which could be brought about by sampling supported by a profiling system. It will be implementing nationally an ALERT-type entry selection system on January 1, 1988.

7.105 **Collection of revenue.** Customs collects the bulk of its revenue based on the values declared by importers and brokers. There are two other collection streams. One is based on payment notices generated by the assessment function. The other comprises penalty payments in cases where accounts are not immediately paid in full.

7.106 As a result of our 1978 audit, we noted several weaknesses in this area. They included lack of integrated control over all types of receivables, inadequate segregation of duties, and lack of supervision. Since then, the Department has made numerous changes in its collection procedures. A recent Internal Audit report indicated, however, that some of the concerns we noted in 1978 remain. One of them is a lack of evidence that supervisors review or question work done by their subordinates; for example, ensuring that necessary follow-up calls were made by Collection Officers.

7.107 **Cargo Entry Processing and Collection System (CEPACS).** CEPACS is the core of the commercial system. This computerized system is an integral part of the cargo control, entry review, cash and receivable collection processes. It was intended also to provide profile information for Inspectors and Commodity Specialists. As noted earlier, CEPACS was not subjected to audit this year. However, its importance within the commercial system, together with the fact that CEPACS development was intended to address many of our audit findings reported in 1978, resulted in our reviewing the current status of the system. When we covered CEPACS during our 1978 audit, it was a pilot for a major automation initiative of the Department. The system was initiated in 1968. It was intended to be implemented by 1975 at an estimated cost of $4.7 million.

7.108 In 1979, the Department completed a detailed evaluation of Core CEPACS and decided to proceed with national implementation. It noted that costs to date were some $25 million. Benefits to be derived from CEPACS were stated to be realizable only on full national implementation of the Core system in addition to subsequent completion and implementation of the rest of the system.

7.109 As originally designed, CEPACS was to have incorporated extensive data-base and data retrieval features to assist Customs Inspectors and Commodity Specialists to select transactions for review. However, the features intended to support the Commodity Specialist were not part of the Core CEPAC system. They were later developed separately as part of the ALERT project, which also incorporates retrieval procedures for use in Customs investigations at the national level.

7.110 In 1981, Cabinet decided that Canada would work toward adopting the "harmonized system" of tariff/commodity identification developed under the auspices of the Customs Co-operation Council in Brussels. In 1983, the Department, on submission to Treasury Board, was given approval to change from existing hardware to IBM-compatible computing equipment. The Department's submission cited problems with the existing hardware and software. It also pointed out that the need to implement the harmonized system presented the opportunity to bring in an integrated automated data processing system.

7.111 By 1984, the Core CEPAC system had been implemented at 33 sites. The Department's 1984 Automation Strategy Report states that extension to an additional 10 ports has been deferred, pending system efficiency improvements.

7.112 The Department states that the Core CEPAC System will remain on the existing computers until the late 1980s when it will be replaced by a system operating on IBM-compatible equipment, and that this will incorporate most of the original design features of CEPACS. Some of the major components of the original CEPACS design are now being developed and tested in the ALERT and RMD (Release on Minimum Documentation) projects.

7.113 In response to our 1978 audit recommendations as they related to weaknesses in the Department's assessment of import entry documents, the Department stated that many of our concerns would be alleviated through the further development of the data-base and data retrieval features of CEPACS. Since only the Core CEPACS was implemented nationally, weaknesses in the areas of selection of entries for examination and assessment, measurement of the rate of non-compliance, evaluation of the assessment function, and retention of information remain unresolved.

Measuring Enforcement Results in Customs Ports Operations

7.114 Our audit focused on the Department's efforts to measure and report enforcement results in port operations. Since 1978, the Department has made progress in this area. A program evaluation group has been established that is responsible, among other things, for measuring the enforcement results of Customs Port Operations. We identified the potential sources of enforcement information: the outputs of program evaluation studies, and other studies and reports. We then determined whether the information was satisfactory, based on the criterion that departments should have measurement procedures in place, and that these procedures should be state-of-the-art and cost-justified.

7.115 We reviewed only those assessments, studies and data produced by the Program Evaluation Division that related to measurement of Port Operations. We did not audit the operations of this Division.

7.116 **Passenger Operations.** The Department has developed an ongoing system for air passenger operations (Air-PMS) to measure, among other things, the levels of voluntary compliance by travellers and its own success in detecting non-compliance. The Department indicates, however, that the system suffers from problems of data credibility. They have identified as a concern the non-adherence of Inspectors to the random sample selection procedures, and the possibility that random referrals are less thoroughly examined at secondary examination than other referrals. This would result in an over-estimation of compliance levels, and of the Department's success in detecting non-compliance. The Department is studying these problems to correct them.

7.117 In the area of highway passenger operations, which accounts for over 80 percent of traveller volume, the Department conducted a pilot project in the fall of 1982, to measure, among other things, the levels of compliance and the success in detecting non-compliance. However, a decision was made not to implement the system. This was due in part to cost constraints and in part to the concern that such performance information might be confused with setting quotas and thus create operating difficulties for the Department.

7.118 The Department also undertook a program evaluation study to examine a variety of issues related to all areas of passenger operations. Some of the study's recommendations have been implemented. One of the areas of the study the evaluators felt was critical to the departmental mandate and to achieving the compliance objective was the measurement of non-compliance. The study was to assess this and also the Department's effectiveness in detecting and rectifying non-compliance. In keeping with the audit's overall focus on mandate delivery, we audited only these aspects of the study, and our conclusions are restricted to them.

7.119 The study used an estimate of the success of Customs Inspectors in referring non-compliers for Secondary Inspection, relative to the success of a random referral process. This estimate was based on information from two sources: data taken from the Air-PMS (discussed above), and the views of Customs Inspectors. In our opinion, the information from these sources suffered from problems of validity. The estimate of Customs Inspectors' success was then used as a key input to calculations generating the estimate of voluntary compliance reported in the study.

7.120 The Department recognizes that these estimates included the use of "soft" information. It has reported in its 1985-86 Estimates, Part III, that procedures will be conducted to verify the information.

7.121 At present, therefore, the Department does not have sufficient objective and reliable information on the level of compliance and its success in detecting non-compliance for passenger operations.

7.122 **Commercial Operations.** As mentioned earlier, the Department has made progress toward measuring enforcement results in Port Operations. A program evaluation group has been established that is working toward measuring results of enforcement activities. At this time, however, the Department does not have satisfactory procedures in place to measure and report on the achievement of enforcement results in Commercial Operations.

7.123 The Department recognizes that there is a need for measuring enforcement results in Commercial Operations. It plans to continue its efforts to achieve that end.

7.124 **Potential use.** Information on enforcement results could be used for a number of purposes. These include: allowing management to consider the level of risk when making resource allocation and policy decisions; assessing the impact of policy or operational changes on the level of compliance; and adjusting responsiveness. The Department recognizes the importance of having valid information on enforcement results for management decisions. It is planning steps to develop appropriate procedures for obtaining this information.

7.125 **The Department should ensure that it has sufficient objective and reliable information on the level of compliance in Passenger and Commercial Operations and on its success in detecting non-compliance.**

> Department's response: *The Department fully recognizes the importance of this information and has had for some time, initially as part of its Management Improvement Plan, plans and activities in place to carry out the necessary development work. As noted, the Air Passenger Performance Information System (Air-PMS) is in place and operating. The Department expects to solve the operational problems of the Air-PMS, reported by the Auditor General, presently. In the area of Highway Passenger operations a feasible system has been developed and pilot tested. A final decision on national implementation will not be made until further analysis has been completed. Finally, in the area of Commercial Operations work is in progress to determine the most cost-effective procedures to employ in gathering the necessary data and the frequency with which this should be done.*

Overall Summary and Conclusion

7.126 Since 1978, statements made by the Deputy Minister have prompted many studies and projects with a view to providing management with better information. The Department embarked on a program of introducing changes in its management systems and practices. Some of these are reorganizations, a system of accountability contracts, a project management system and a statement of operating principles. There was also an effort to increase sensitivity and responsiveness to the public and a stronger emphasis on facilitating compliance.

7.127 Our present audit focused on Customs' delivery of its mandate, particularly with respect to operational activities in Customs Ports. The Department has responded to the wishes of government and many Canadians to make it easier for importers and travellers to comply with Customs regulations. In some specialized areas such as detection of firearms, narcotics, explosives and pornography, the Department's enforcement activities are more intense than they were some years ago. On the other hand, the Department has fewer resources than it had in earlier years, it is coping with a larger workload, and it has limited information on the public's compliance and on its own success at detecting non-compliance. As a result of our review, including interviews with 200 Customs Officers, we have a concern that the deterrent and enforcement aspects of Customs in some other areas may have diminished. The Department does not have sufficient reliable information to determine to what degree this might be the case.

7.128 We believe a remedy lies in the direction we have mentioned several times in this chapter. Customs needs dependable processes to identify and select for inspection high risk commodities, importers, carriers and travellers. Customs also needs to have objective and reliable information – in addition to experience and intuition, about the level of compliance and about its own success in detecting non-compliance.

ATOMIC ENERGY CONTROL BOARD

ATOMIC ENERGY CONTROL BOARD

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AECB's Response

8

ATOMIC ENERGY CONTROL BOARD

Overview

8.1 The Atomic Energy Control Board (AECB) was established in 1946 to make provision for control and supervision of the development, application and use of atomic energy for peaceful purposes, and for effective participation in measures of international control of atomic energy. The mandate was broad but skeletal – an inevitable consequence of the limited knowledge of the subject matter and the international situation at the time.

8.2 The Board, consisting of five persons appointed by the Governor in Council, is assisted by 260 staff persons in the AECB. The Board has delegated some regulatory authority to the AECB staff.

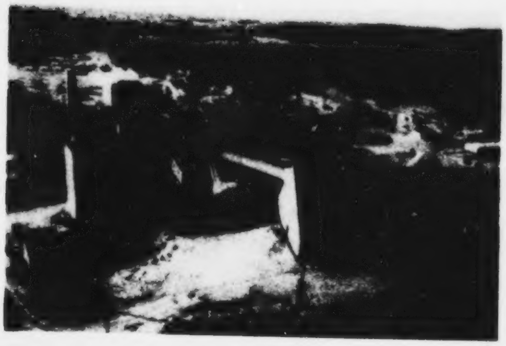
8.3 **Health and safety concerns.** In 1959, the responsible Minister, in a reassessment of the Board's role, indicated it would assume increased responsibility for the health and safety of workers and the public.

8.4 In 1960, the regulations were amended to give the Board powers, for the first time, to control the health and safety of atomic energy industry workers. Since then, they have been expanded in detail many times. There are now regulations aimed at limiting the risks to the health and safety of workers and the public for most areas of the atomic energy industry. For example, there are regulations for nuclear powered electricity generating stations, nuclear research facilities at universities, radiation treatment facilities in hospitals, radiographic use of nuclear sources in industry, uranium mining and refining, heavy water plants and radioactive waste disposal. There are also regulations for the transport packaging of radioactive materials and the physical security of nuclear facilities. The accompanying photographs show a spectrum of Board regulatory responsibilities.

8.5 **Safeguards and non-proliferation.** A major continuing purpose of the AECB has been to participate in measures of international control of atomic energy to prevent the spread of nuclear weapons. Canada has signed the Treaty on the Non-proliferation of Nuclear Weapons that came into force in 1970; non-proliferation is pursued by monitoring the peaceful uses of atomic energy to detect whether nuclear materials are being diverted to nuclear weapons or other nuclear explosive devices. If diversion is detected, sanctions can be applied. Pursuant to the Treaty, Canada has an agreement with the International Atomic Energy Agency (IAEA), whereby Canada will establish controls over nuclear materials, and IAEA is authorized to inspect Canadian facilities to ensure that these materials are properly accounted for and thus not diverted. AECB is responsible for administering Canada's obligations arising from the agreement.

8.6 AECB is the technical administrator of several nuclear co-operation agreements signed with Canada's nuclear trading partners. These co-operation agreements require the recipient country to permit IAEA inspections of Canadian-supplied nuclear

AECB'S INVOLVEMENT IN CANADA'S ATOMIC ENERGY INDUSTRY



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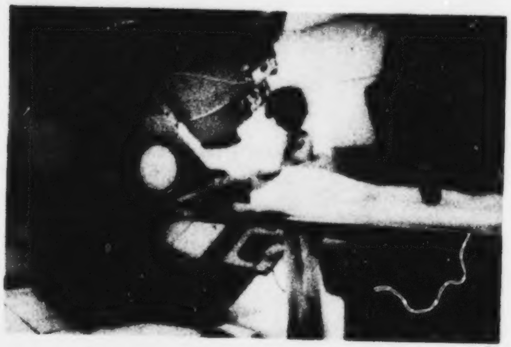

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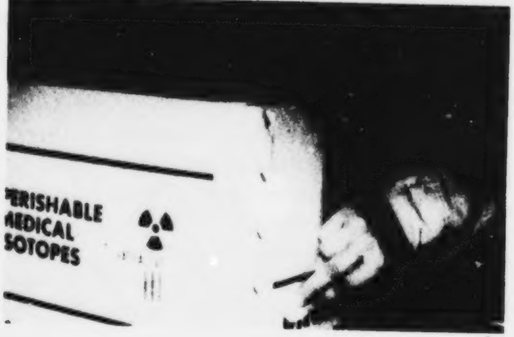

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1. The environmental impact of uranium mines is controlled by the AECB. 2. A fuel bundle for a CANDU reactor is examined by a company inspector. 3. Cobalt 60 is used in radiation treatment for cancer. 4. AECB sets the standards for transport packaging of all radioactive materials. 5. Nuclear power generating stations can have up to eight separate CANDU reactors. 6. Heavy water is produced in large chemical plants under AECB control.

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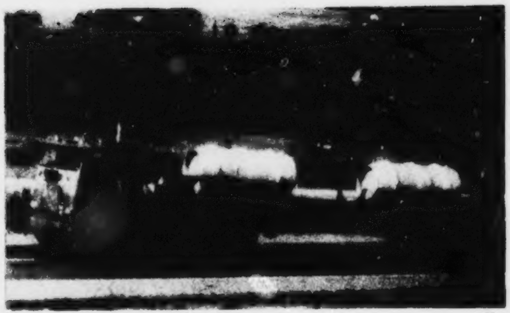

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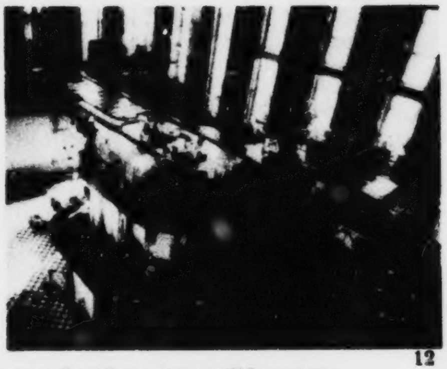

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7. IAEA inspectors use a Cerenkov meter to measure the glow given off by spent reactor fuel. 8. Uranium hexafluroide being transported in approved containers. 9. Radioactive sources are used to make photographs of welds by radiographers in industry. 10. Operators at nuclear power stations are highly skilled and must pass exacting examinations set by AECB. 11. Inspectors checking radiation levels in an underground uranium mine. 12. Research reactors are smaller and generally less complicated than power reactors.

materials and equipment. In accordance with Canada's nuclear policy, AECB also regulates exports of prescribed nuclear materials, equipment and technology.

8.7 Status of legislation. The legislative framework within which the AECB exercises regulatory control was established in 1946 and has remained basically unchanged since that time. In 1976, the Law Reform Commission reported that the Atomic Energy Control Act was outdated. In 1978, a bill proposing a revised version of the Act died on the order paper when Parliament prorogued. Some groups have criticized the AECB in recent years; for example, the Select Committee on Ontario Hydro Affairs, a B.C. Royal Commission on Enquiry into Uranium Mining, and the Cluff Lake Board of Enquiry in Saskatchewan. In our opinion, it appears that many of their criticisms are actually directed at perceived deficiencies in the legislation. The following are some of the perceived weaknesses in the current legislation:

- There is a perception of potential conflict of interest in the use of part-time Board members who belong to institutions or organizations that are licence holders or that have commercial relations with licence holders.

- There are currently some unresolved jurisdictional conflicts among the various involved regulatory agencies at the federal and provincial levels. Some industry representatives consider there are too many regulatory agencies involved.

- For a number of years there was a lack of clarity as to whether Crown corporations, for example Atomic Energy of Canada Limited and Eldorado Nuclear Ltd., were subject to AECB regulation. In recent years, AECB has taken the position that it has the mandate to regulate such corporations, and we were informed that no substantive challenge to its authority has resulted.

- In some other regulatory situations, Parliament has passed laws specifying, for example, the factors that are to be considered in setting standards. Or Parliament's laws may indicate that public hearings are to be held, what process should be used and whose opinions should be considered in coming to regulatory decisions. The current legislation provides no guidance to the AECB on such matters.

- In some other regulatory processes, there is provision for the appeal of decisions; there is no such provision in the current Act or regulations, except for appeals to the Board itself.

- Waste management – storage and disposal – is a growing and long-standing problem that remains to be resolved. The technical aspects of the problem seem, at least to some informed people, to be addressed adequately by current research efforts; however, the resolution is complicated not only by technical difficulties but also by jurisdictional matters.

These issues, and others, were addressed in the proposed Nuclear Control and Administration Act (Bill C-14) which, as noted previously, died on the order paper in 1978.

Audit Scope

8.8 We examined the management controls and the administrative procedures connected with the Board's licensing, inspection and enforcement activities. We did not assess the technical capabilities of the staff, the technical appropriateness of the analysis they performed, or the appropriateness and the effectiveness of the various procedures used. Specifically, we examined the administration of the existing procedures in the following areas:

- design, construction, operation, maintenance and decommissioning of electric power generation reactors;
- construction, operation and decommissioning of uranium mines, refineries and fuel fabrication facilities;
- transport packaging of radioactive materials;
- radioactive waste management;
- operation of heavy water production facilities;
- radioisotope use in both medicine and industry including agriculture; and
- construction and operation of accelerator and research reactor facilities.

8.9 We reviewed AECB's administration of activities inside Canada conducted in fulfilment of Canada's commitments for the non-proliferation of nuclear weapons.

8.10 As part of our annual work, we reviewed the Board's financial affairs and gave an audit opinion on the financial statements presented in its annual report. In addition, we examined the Board's key administrative support systems and controls.

Observations and Recommendations

Licensing, Inspection and Enforcement Processes

8.11 **Background.** Regulatory control is effected through a comprehensive licensing system the purpose of which is to assure that nuclear facilities, substances and equipment are used only with proper consideration for health, safety and security. Federal and provincial regulatory agencies concerned with health, the environment, transport, occupational safety and labour co-operate in the administration of the licensing system.

8.12 Current regulations require that any person or organization wishing to produce, mine, refine, process, sell, use or export prescribed substances and devices or equipment containing radioactive substances, or operate a nuclear facility for the production of heavy water or nuclear energy in Canada, is required to obtain a licence from the Board. Before issuing a licence, the Board requires the person or organization to provide sufficient information to show that required health, safety and security standards will be met and maintained, and that the effluents and wastes will be managed satisfactorily.

AECB defines the standards that must be met (such as radiation exposure limits, effluent discharge rates and volumes, and transportation container characteristics), assesses the capabilities of the potential licensee to meet and maintain the standards, and then may issue a licence, subject to certain conditions, for a specified period of time.

8.13 Inspections are conducted by AECB inspectors to determine whether regulated standards are being met and that all license conditions are satisfied.

8.14 Procedures call for reports to be written for each inspection, except for selected routine inspections carried out by resident officers at nuclear power stations. If corrective action is needed, procedures call for various forms of follow-up by AECB personnel.

8.15 Health and Welfare Canada operates a registry of cumulative worker doses and exposures to radiation. Workers who have received radiation doses or exposures in excess of the regulatory limit must be removed from work; once removed, they may return to work only with Board approval.

8.16 **Observations.** In each area of Board responsibility we found well defined licensing, inspection and enforcement procedures. In general, the procedures were extensively documented. However, in the areas of major power reactor inspections, uranium mine inspections and radioisotope use, licensing documentation is not yet complete. We reviewed a sample of files from each area and found the defined procedures were followed.

8.17 The frequency of inspections is guided by the knowledge and experience of the licensee, the results of earlier inspections of the performance of the licensee, the risks involved, etc. For example, for large power reactors, there are several on-site inspectors. In the Elliot Lake underground uranium mines, there are several inspections each week. In the Saskatchewan open-pit mines, there are several inspections a year. Users of slightly radioactive radioisotopes might be inspected once in three years.

8.18 Inspection reports are often widely distributed – copies can be sent to other regulatory agencies, licensee management and labour representatives as well as to designated AECB staff.

8.19 In all the areas for which inspection reports are written, we found that procedures for follow-up of non-complying situations were followed. For example, special follow-up inspections are done where relatively significant deficiencies have been found. Otherwise, follow-up can be by mail, and corrections verified on the next scheduled inspection. Education and persuasion are the preferred approaches to ensuring compliance, although prosecution is used occasionally.

8.20 **Individual exposure.** Since 1951, the Radiation Protection Bureau of Health and Welfare Canada has maintained a national registry of reported dosages of radiation received by radiation workers. The register includes workers exposed to ionizing radiation, whether the source is X-rays – which are in provincial jurisdiction – or radioisotopes, nuclear reactors or accelerators – which are in the federal jurisdiction. About 60,000 of the 300,000 people in the national registry are exposed to radiation sources in the federal jurisdiction.

8.21 Atomic Radiation Workers are those persons who in the course of their employment may be exposed to ionizing radiation in excess of a regulatory level. Most of these people wear individual dosimeters which are read periodically and the results recorded in the national registry.

8.22 When a person's registered dose or exposure exceeds a specified level, the AECB is informed. The AECB action depends on the seriousness and is governed by established procedures.

8.23 The AECB has not carried out any regular or detailed analysis of the data in the national register. It has assessed and analysed the dose distribution among the employees of major licensees on the basis of annual reports submitted by the licensees. This assessment and analysis should be extended to include the entire population of Atomic Radiation Workers; it would be useful in identifying sectors or employers where there was more exposure than was reasonable even though still less than the regulatory limit. Trends in exposure could also be identified. To do such analysis, it is our understanding that minor modifications in AECB's reporting requirements would be needed. The Board might also need to employ a person skilled in statistical or epidemiological analysis. Retrospective health effect assessments would be made easier if such analyses were available.

8.24 **Conclusion.** Other than the limitation in the analysis of the personal dosage data in the national register, we found no significant weaknesses in the administration of the Board's licensing, inspection and enforcement processes.

Regulatory Framework

8.25 **Background.** The Atomic Energy Control Act enables the Board to make regulations, subject to approval by the Governor in Council, concerning control of the atomic energy industry. These regulations, along with the conditions in licences, Board policy statements and regulatory guides make up the AECB regulatory framework. In addition, all licensees are required to comply with all applicable laws, standards and regulations promulgated by other agencies of government. For example, nuclear facilities are subject to the Canada Labour Code that is administered by Labour Canada.

8.26 The AECB uses a co-operative, co-ordinated approach in creating its regulatory framework. In this approach, the Board, as the principal federal regulatory agency, invites appropriate federal, provincial or municipal agencies to participate. Public interest groups, industry and unions may also participate. The Board has adopted the philosophy that it will not be the primary regulator of non-nuclear health and safety matters where there exists another agency which has the necessary capability and is exercising its jurisdiction at non-nuclear facilities. For example, a provincial ministry of labour often has responsibility for conventional occupational health and safety issues in industrial facilities within that province. To avoid having to acquire the capability in the AECB or in Labour Canada, the Board may sign an agreement with the provincial ministry to have the provincial inspectors apply provincial occupational health and safety regulations in nuclear facilities.

8.27 Special arrangements can be made to give the force of law to any such provincial regulations. For example, the Ontario Mining Regulations are incorporated into the Atomic Energy Control Regulations by referring to them. Alternatively, a Memorandum of Understanding may be signed by the two agencies to record the role of each agency, although such an arrangement is not legally binding. We noted some cases where neither type of arrangement has been completed.

8.28 **Regulatory update.** A very important task of a regulatory agency is to review and update the regulatory framework through which it exercises control. The purpose of the review and update is to ensure that its regulatory objectives are still appropriate and are being achieved with a minimum of regulatory burden. The outputs of this review process are new or revised regulations.

8.29 In 1978, the Government introduced a requirement that major new or revised regulations be preceded by a socio-economic impact analysis (SEIA) designed to determine whether the costs of regulation are likely to exceed the benefits. A SEIA is designed to forecast the effects of the proposed regulations or revisions on market structure and market efficiency, distribution of income, regional balance, technological progress, employment and inflation. The purpose of this policy is to promote a more thorough and systematic analysis of the impact of new or modified regulations and to provide an opportunity for increased public participation in the regulation-making process.

8.30 The first step in a SEIA is a screening exercise to determine whether the regulation is likely to have a minor or major socio-economic impact. If the costs are forecast to be greater than $10 million, the regulation is deemed to be major and a full SEIA is done. Alternatively, if a specific group will be heavily affected, or the public at large affected significantly, a full SEIA can be called for. If the impact is deemed minor, the SEIA process is terminated at the screening stage.

8.31 **Observation.** The AECB has done screening exercises for several draft regulations but has not yet done a full SEIA. In this regard, it is operating in compliance with government practice on SEIAs. However, our review of several cases indicates that the government practice on SEIA may not be completely appropriate for application to all sectors and components of the industries regulated by the Board.

8.32 For example, consider the proposed Uranium Mining Regulations that were developed following extensive discussions among the Board staff, Elliot Lake uranium mine operators and union representatives. A screening exercise was done that found the effect of the draft regulations not to be "major" and thus not meriting a full SEIA. On the other hand, industry representatives have indicated to us that in their opinion the conclusion of the screening exercise was wrong because it used inappropriate criteria and methods of analysis. Their view is that the Mining Regulations will have a major impact on the Elliot

Lake mining operations and that a full SEIA should be done. At the time of the audit, we were informed that the industry had not clearly communicated its view on this matter to the Board.

8.33 The AECB should develop criteria and analysis that are appropriate for determining the need for socio-economic impact studies in each particular sector of the atomic energy industry that it regulates.

Safeguards and Non-proliferation

8.34 Background. Canada's current nuclear policy allows the export of nuclear materials, equipment or technology under certain conditions. First, nuclear co-operation will be authorized with a non-nuclear weapon state only if that state has undertaken a formal international commitment to non-proliferation and has accepted international nuclear safeguards on the full scope of its nuclear activities. Second, exports of Canadian materials can be made only to those states accepting the obligation that materials, equipment and technology supplied by Canada will not be used for producing nuclear weapons or other nuclear explosive devices. These latter obligations, and others, are formalized in bilateral or multilateral agreements between Canada and prospective trading partners.

8.35 International safeguards. When a country is committed to non-proliferation and international safeguards, it will sign an agreement with the International Atomic Energy Agency. It thereby undertakes to create a state system meeting international standards to account for and control nuclear materials. In this system, material balance areas are established that cover the country's nuclear materials and activities that are subject to international safeguards. For each material balance area, the nuclear facility operators must keep records of nuclear materials retained, received, shipped, consumed or transformed. The state nuclear authority inspects the records, procedures, inventories and so on of the nuclear facility operators.

8.36 The IAEA then inspects the state system to verify its effectiveness. This might involve maintaining electronic and other passive surveillance procedures at strategic locations inside selected material balance areas. IAEA inspectors will also be present for critical operations at certain nuclear facilities. For example, the transfer of spent CANDU fuel bundles between storage bays at some Canadian nuclear power stations is monitored by IAEA's inspector by methods that include direct observation of the spent fuel bays and, in some cases, use of specially developed surveillance instruments. This practice is designed to detect possible substitution of dummy fuel bundles for the spent fuel bundles, which contain small amounts of plutonium, a strategic material.

8.37 Safeguard procedures are applied in accordance with the strategic value of the material being safeguarded, with greater emphasis being placed on control of material from which nuclear weapons could be made more directly. For example, emphasis is placed on safeguarding highly enriched uranium whereas the uranium produced by Canada's mines is not safeguarded until it has been upgraded to uranium dioxide or uranium hexafluoride.

8.38 The IAEA reports its findings on these inspections stating whether significant amounts of nuclear materials are unaccounted for.

8.39 **Safeguards in Canada.** AECB acts as Canada's nuclear authority with respect to Canada's agreement with the IAEA. Accordingly, AECB set up and maintains the Canadian state system of accounting for and controlling nuclear materials. Compliance with the system is ensured through AECB's comprehensive licensing and inspection system whereby the general requirements of international safeguards are incorporated into the facility licence issued by AECB.

8.40 The AECB assists the IAEA inspectors in implementing their safeguarding activities in Canada. For example, it provides the IAEA each month with material balance reports and inventory change reports for all material balance areas. It also participates in major inspections.

8.41 **Safeguards on exported materials.** Canadian nuclear exports can go to only those countries that have undertaken to accept, in a formal agreement, a number of requirements designed to minimize the risk that they will be used to make a nuclear weapon or other nuclear explosive device. These requirements are additional to those contained in each country's agreement with the IAEA. The additional requirements include: provision for fallback safeguards if the IAEA is unable to continue; control over the re-transfer of Canadian supplied nuclear items; control over spent fuel, its reprocessing and the re-processing products; and an assurance that adequate physical protection measures will be applied.

8.42 The IAEA reports annually whether it has detected any diversions of significant quantities of nuclear materials from peaceful nuclear activities to the manufacture of nuclear weapons or other nuclear explosive devices or for purposes unknown. The AECB in concert with other agencies of government reviews this report and other pertinent information to verify that nuclear materials of Canadian origin have not been diverted.

8.43 Compliance with other requirements of the nuclear co-operation agreements is not based on international safeguards but on mutual trust and general watchfulness. For example, some Canadian technology and equipment are controlled only through the export licence. It is considered that if such technology or equipment were to be used to produce a nuclear explosive device, it would be done only with great effort that would likely be noticed because many safeguarded components would also be required.

8.44 As a final control, the AECB can refuse to issue an export licence for any nuclear materials or technology if such refusal is determined to be in Canada's interest.

8.45 **Observation.** The AECB has documented its safeguard procedures. Our review of files and interviews with AECB staff show the procedures are followed. The review of these procedures is an ongoing management activity. The IAEA reports that in its inspections, it has found no significant diversions of safeguarded materials in Canada or elsewhere. In general, we found AECB's administration of its safeguard procedures to be satisfactory.

Effectiveness Measurement

8.46 **Periodic measurement.** Since late 1977, the government has required that departments and agencies conduct periodic program evaluations on a cyclic basis. In 1981 detailed guidance on the government's expectations for this were given.

8.47 The AECB has yet to complete a program evaluation of any of its activities, but a review of the Nuclear Liability Act was in progress at the time of the audit. While most of the normal elements of a program evaluation infrastructure are not in place, the AECB has produced an evaluation plan. We examined this against our criteria for such documents and found it to be incomplete.

8.48 **AECB should establish procedures to ensure that the cyclical evaluation of the effectiveness of its programs is carried out and that the results are appropriately reported.**

8.49 **Ongoing measurement.** We reviewed AECB's ongoing effectiveness measurement activities to verify whether effectiveness indicators and measurement reports were being used for management control purposes. We found that the indicators listed in the operational plan were not always used. Those identified for the regulation of reactors and accelerators were used, and reports were being prepared for review by management. Planning for the use of the regulatory research indicators has taken place and a first analysis was expected at the end of the 1984-85 year. The situation is less favourable for the regulation of fuel facilities and materials; management informed us that it considers many of the listed effectiveness indicators to be unsatisfactory. A study will be made to develop appropriate indicators.

Nuclear Liability Act

8.50 The Nuclear Liability Act (NLA) was passed in 1970 but was not proclaimed until 1976, after an agreement had been reached with a consortium of private sector insurers.

8.51 The insurance agreement covering civil liability for nuclear damage is deficient in that it provides coverage that is narrower than the Act calls for. Specifically, it provides for coverage of bodily injury in place of the broader personal injury and it does not cover damages resulting from the emissions occurring during the normal operation of a designated nuclear installation. There is, however, a Reinsurance Agreement between the insurers and the government under which the government provides insurance for the excluded items. AECB is aware of the variance between parliamentary expectation and the private sector coverage now provided. An interdepartmental working group was created in 1982 to review this Act; its report was expected in June 1985.

8.52 Based on the information available at the time of our audit, we believe a review by Parliament of the Nuclear Liability Act would be appropriate.

Administration

8.53 We examined the Board's key financial management and resource administration systems and found them satisfactory.

8.54 **Human resource management.** At AECB, we found no significant deficiencies in human resource practices and systems likely to have an adverse effect on the Board's ability to deliver its programs. Specifically, the AECB is an organization oriented to people, with managers at all levels displaying considerable interest and dedication to their management. Key decisions in each human resource area rest with line managers who rely on personnel specialists only for technical guidance and administrative support. Senior managers control the job classification process, and we noted no significant shift in classification levels since 1981. Performance appraisals are very well done and are used by management.

8.55 In general terms, we found that personnel at AECB were being managed in a way that encouraged individuals to maximize their personal contribution to achieving the Board's objectives.

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Your file Votre référence

Our file Notre référence
12-1-7

July 22, 1985

Mr. Kenneth M. Dye
Auditor General of Canada
240 Sparks Street
Ottawa, Ontario
K1A 0G6

Dear Mr. Dye:

We have reviewed the chapter on the comprehensive audit of the Atomic Energy Control Board (AECB). We find it factual and correct and have no disagreement-in-principle with its conclusions, recommendations or observations.

I acknowledge the chapter's conclusions that the administration of the AECB's primary activities is generally satisfactory. Those primary activities are the licensing, inspection and enforcement of nuclear facilities and prescribed substances in the interests of health, safety and security, and the safeguards and security control of prescribed substances and equipment. I also acknowledge the conclusion of generally satisfactory with reference to the supporting activities of financial and human resources management and resource administration.

Two recommendations have been made. These are with regard to socio-economic impact analysis (SEIA) screening criteria and analysis and to program evaluation. These recommendations and the AECB response thereto follow:

RECOMMENDATION:

The AECB should develop criteria and analysis that are appropriate for determining the need for socio-economic impact studies in each particular sector of the atomic energy industry that it regulates.

> **AECB RESPONSE:**
>
> Although we believe that the current Treasury Board socio-economic impact analysis (SEIA) criteria and analysis are appropriate for all sectors of the nuclear industry, we will address this matter in conjunction with the current triennial Treasury Board SEIA policy evaluation.

RECOMMENDATION:

AECB should establish procedures to ensure that the cyclic evaluation of the effectiveness of its programs is carried out and that the results are appropriately reported.

AECB RESPONSE:

The AECB program evaluation plan will be further developed and the infrastructure strengthened to ensure that cyclical program evaluations are well conducted and appropriately reported.

A number of observations have been made in the areas of weaknesses in current legislation, documentation not complete in some licensing, inspection and enforcement areas; non-analysis of national dose register data, need for improvement of some effectiveness indicators, and that the re-insurance agreement pursuant to the Nuclear Liability Act does not completely reflect the intent of that Act. We are aware of these areas and will intensify our efforts to effect appropriate improvement in each of them, recognizing that in certain instances the applicable policies and priorities of the Government are the primary determinant.

We have appreciated and benefitted from our association in this comprehensive audit which was facilitated by our shared goals and by the courtesy, thoroughness and professionalism of all involved members of the Office of the Auditor General.

Yours sincerely,

J.H. Jennekens

DEPARTMENT OF THE ENVIRONMENT
ATMOSPHERIC ENVIRONMENT SERVICE

DEPARTMENT OF THE ENVIRONMENT
ATMOSPHERIC ENVIRONMENT SERVICE

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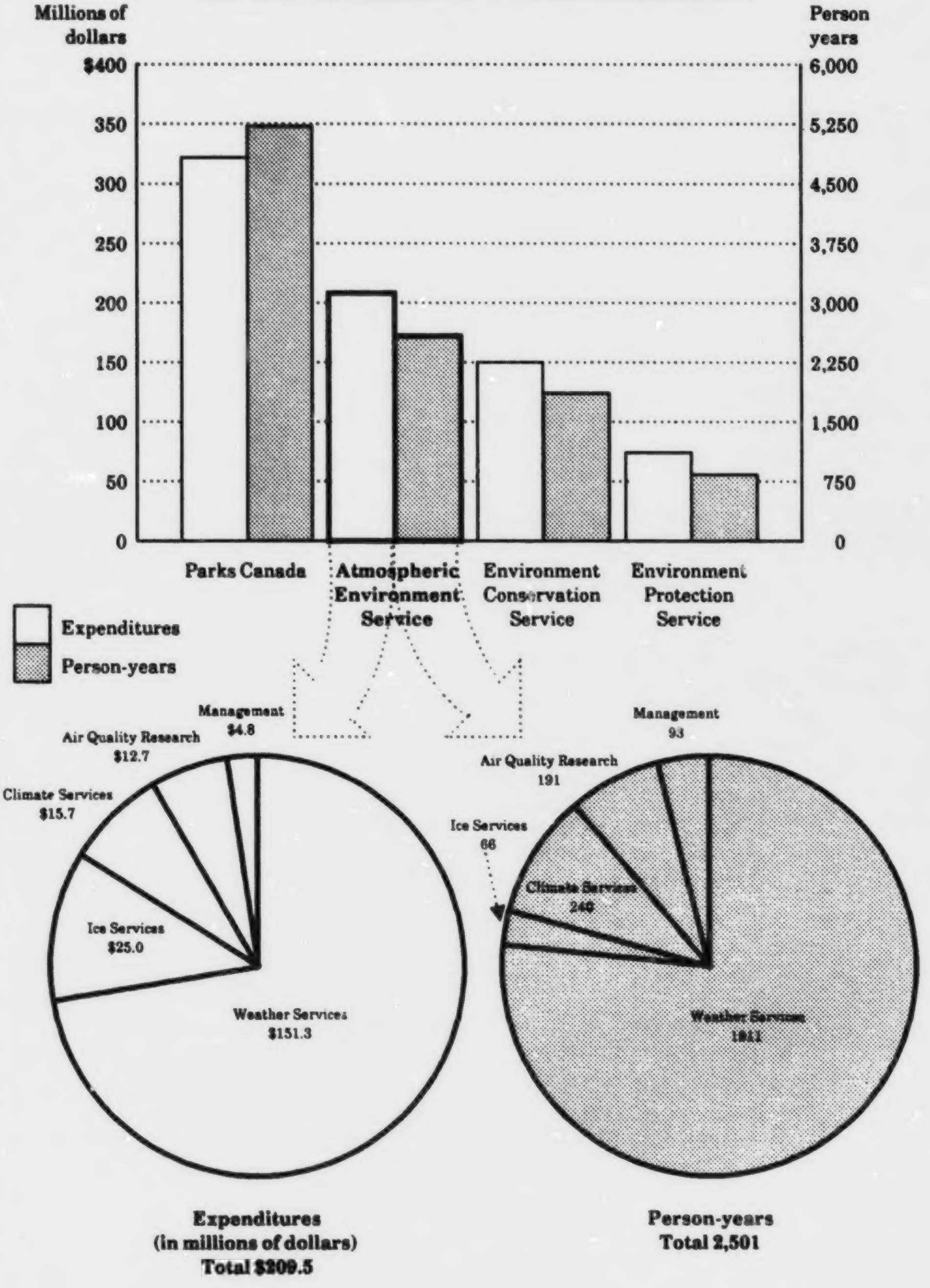
Exhibit 9.1

SIGNIFICANCE OF AES AS A PART OF THE DEPARTMENT OF THE ENVIRONMENT



9

DEPARTMENT OF THE ENVIRONMENT ATMOSPHERIC ENVIRONMENT SERVICE

Introduction

9.1 This chapter reports the third phase of a continuing comprehensive audit of the Department of the Environment. The phased approach was adopted to give Parliament more opportunity to scrutinize each program or service of what is a complex department. In 1983 we reported on Parks Canada; in 1984 we reported on the Environmental Conservation Service and the Department's financial management and control system. This year we are reporting on the Atmospheric Environment Service (AES). Exhibit 9.1 displays in financial terms the significance of AES in relation to the Department's other major activities within the Environmental Services and Parks Canada Programs.

9.2 AES is the sole agency responsible for forecasting the weather over the majority of the Canadian land mass, adjacent sea areas and certain international air corridors. The pre-eminence of the federal government in weather forecasting dates back to 1871 when the Meteorological Service of Canada was established in the Department of Marine and Fisheries primarily to provide storm warnings for marine activities. Public weather forecasts were initiated in 1879. In 1936, aviation development led to the transfer of all weather services to the Meteorological Division of the Air Services Branch of the newly formed Department of Transportation. In 1971, the evolution of federal meteorological services continued when it became the Atmospheric Environment Service of the Department of the Environment.

9.3 Since 1971 AES has expanded the basic mission of public weather services to include new emphasis on the quality of the air, ice services, climatological services and the application of these to a broad range of environmental and socio-economic problems. These problems include acid rain, ozone depletion, climate change, environmental emergencies, interest in solar and wind energies and frontier energy exploration.

Audit Scope

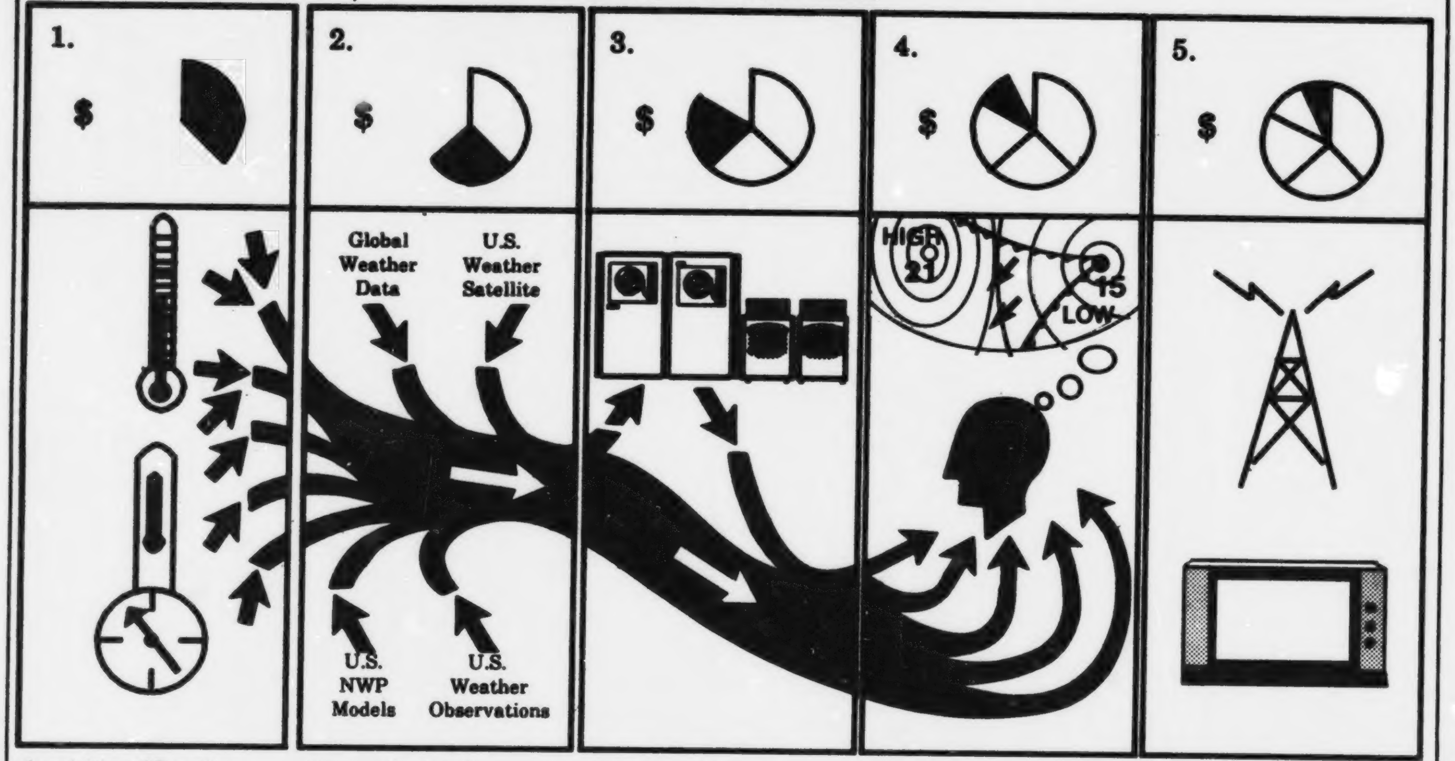
9.4 This year's audit focused on the Weather Services activity, which is responsible for producing Canada's weather forecasts. Seventy-two per cent ($151 million) of the total 1984-85 AES budget went to producing forecasts and collecting the weather data on which they are based. Weather forecasting is the most important output of AES.

9.5 The success of the Weather Services activity depends on the component (Exhibit 9.2) responsible for preparing the regional forecast. Other components such as data acquisition, communications, data processing and dissemination comprise more than 80 per cent of the Weather Services budget. However, their value would be significantly diminished if the assembly of the weather forecast was not well executed. We therefore decided to focus our review on this critical component. We also reviewed the dissemination of weather forecasts to the ultimate users. This too is a critical activity since the weather

Exhibit 9.2

THE FIVE COMPONENTS OF THE FORECAST PREPARATION PROCESS

(total expenditure $151 million)


1.
$
2.
$
Global Weather Data
U.S. Weather Satellite
U.S. NWP Models
U.S. Weather Observations
3.
$
4.
$
HIGH
21
15
LOW
5.
$

1. Acquisition of Canadian weather observations from some 300 stations in Canada

2. Communication of Canadian and international weather data to regional forecast centres and central meteorological services

3. Production of Canadian numerical weather prediction models

4. Preparation of the regional weather forecast - involving considerable professional judgement

5. Dissemination of the forecast through a network of weather offices (59) and the media

forecast has little value until it is received and understood by the potential user. We did not review the function in AES that provides weather information and forecasts for the Department of National Defence ($7.7 million or 3.4 per cent).

9.6 Activities in AES dealing with acid rain and climate change are socially and politically conspicuous. However, we did not review these activities because of their relative immateriality in budget terms compared to Weather Services. The Ice Services activity was not reviewed directly, but was subjected to scrutiny during our analysis of large financial transactions that included contracting for aircraft to observe ice conditions.

9.7 The audit was also extended into other departmental activities through the selection and review of major expenditures. This work encompassed a review of selected significant transactions, or groups of related transactions, with a view to assessing whether they were carried out in general accordance with relevant government authorities and with due regard for economy and efficiency. Because of this year's audit focus, the sample selection had a bias toward AES.

Understanding Weather Forecasting

Principles of Forecasting

9.8 There has been considerable progress in meteorological science and technology since 1871, but the principles of forecasting have changed very little. Essentially the weather is forecast for a specific geographic location by determining, first, what the present weather is both at the location for which the forecast applies and upstream from that location, from where the next weather will likely come. The forecast is then produced by estimating when the upstream weather will reach the location and how it will be modified in transit. The longer the time scale of the forecast the further upstream must the knowledge of current weather extend. The longer the upstream weather takes to reach the forecast location, the greater the probability that it will be modified in transit. Weather may be further modified by geographic and topographic factors such as nearby water bodies or mountains.

9.9 Meteorologists can extrapolate the motions of weather patterns over short distances and for small time horizons, but their accuracy rapidly deteriorates as forecasts extend beyond one day. Over the last 20 years or so, meteorologists have applied a computerized technique to make theoretical predictions to assist with weather forecasting beyond 24 hours. This technique, known as numerical weather prediction (NWP), requires computers of immense power, knowledge of existing weather over a large part of the surface of the earth, and a specialized understanding of weather and its motions. The facility that produces Canadian numerical weather predictions is the Canadian Meteorological Centre (CMC), located in Montreal.

International Implications

9.10 Forecasting the weather is a global affair. Through the auspices of the World Meteorological Organization, practically all the nations of the world exchange their existing weather data with one another twice a day, without charge. Every nation needs global weather information to forecast its own weather. AES is an integral part of this system of international dependencies. The imputed value of data received by AES, from outside Canada, critical to producing forecasts in Canada, has been conservatively estimated by AES forecasters at more than $1 billion a year.

The Task of Forecast Preparation

9.11 For weather forecasting purposes, AES has divided Canada into nine forecast regions (Exhibit 9.3). The weather for the whole of each region is forecast at a regional weather centre. Each weather centre receives all available weather information from Canadian and U.S. sources within a radius of several thousand miles. This information includes observations from specific weather stations, numerical weather prediction models, satellite images, radar reports and images, and weather forecasts.

9.12 Regional weather forecasts are the most important products of AES. The process that yields these products consists of the five components displayed in Exhibit 9.2.

9.13 At any given time, there are nine teams of meteorologists, one in each of the regional forecast centres, forecasting the weather for the Canadian land mass, adjacent sea areas and all Canadian air spaces. Each team has one to four professional meteorologists led by a shift supervisor who has complete authority for issuing weather warnings and weather forecasts.

9.14 On any shift in a regional forecast centre, a typical forecast team comprises two senior meteorologists, one of whom is the shift supervisor, and two junior meteorologists, often including a trainee.

9.15 The senior meteorologists are generally responsible for performing the present weather analysis, producing the regional weather prognosis, writing public weather forecasts, and monitoring severe weather. Using the guidance provided by senior meteorologists, junior meteorologists handle aviation forecasts and other specific forecasts such as marine, roads and highways, and forestry.

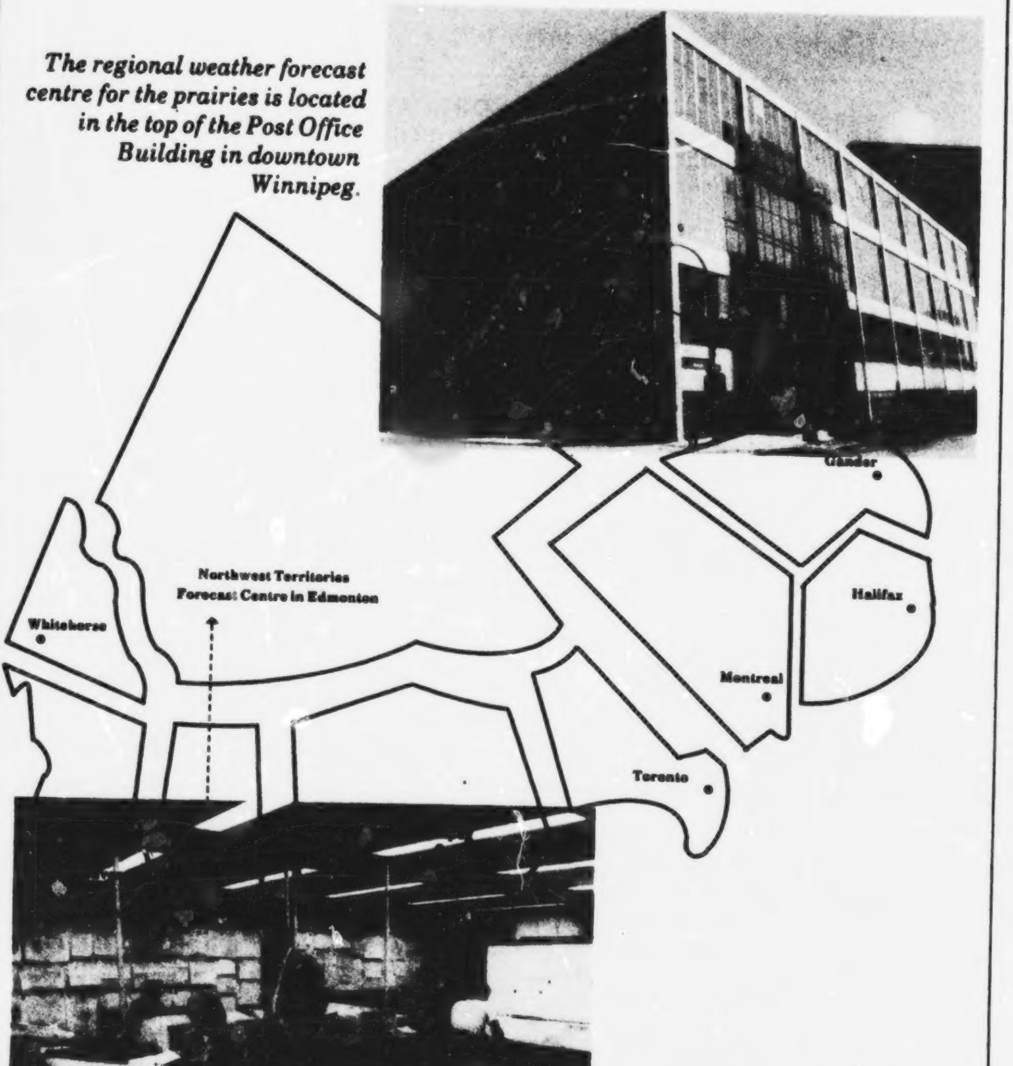
9.16 Typically, a regional forecast team produces the following types of forecast products (Exhibit 9.4):

- public weather forecasts for several sub-regions;
- marine forecasts for several specific areas; and
- aviation forecasts for several sub-regions and airports.

9.17 The shift supervisor reports to a chief meteorologist and an officer in charge of the regional forecast centre who have management responsibility for the forecasting

Exhibit 9.3

NINE FORECASTING REGIONS


Northwest Territories
Forecast Centre in Edmonton
Whitehorse
Gander
Halifax
Montreal
Toronto

The regional weather forecast centre for the prairies is located in the top of the Post Office Building in downtown Winnipeg.

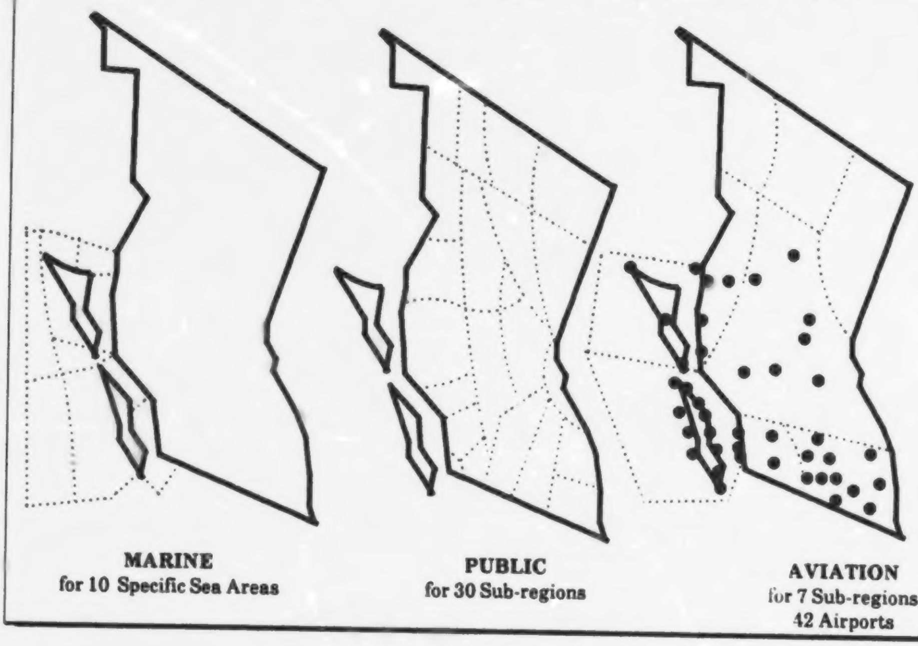
Interior view of a typical weather forecast centre. This is one of two centres, located in Edmonton, that cover Alberta and the whole of the Northwest Territories.

AES dedicates considerable time and effort to measuring the accuracy of its numerical weather prediction guidance and regional weather forecasts. However, this yields limited useful information for management (see paragraph 9.68).

function. The latter two work a Monday-to-Friday day shift. However, the forecasting teams work around the clock, 21 shifts a week, on a rotational basis. The two managers do not get significantly involved in producing the majority of the forecasts.

Exhibit 9.4

WEATHER FORECASTS
PRODUCED FOR A TYPICAL FORECAST REGION



9.18 The teams function under rigorously imposed time schedules, and they produce weather forecasts and information in a format and style clearly specified by AES management. They are required to meet the schedules and the outputs dictated by the process of forecast operations.

9.19 Producing the actual prognosis and forecast is not a mechanical task. Since weather observations are limited and meteorological science is still developing, forecasting involves a good deal of art as well as science, particularly for the short-term forecast. Beyond 24 hours, computer modelling plays a more prominent role. Considerable professional judgement has to be applied in reviewing, assessing and synthesizing all the available weather data into a forecast. In this process, judgement is exercised mainly by the shift supervisors and the senior meteorologists on their teams.

9.20 The successful management of weather forecast preparation, focusing on the shift supervisor, is vital to the quality of the product finally used by Canadians. In cases of severe and volatile weather situations, the quality of the forecast can affect the survival and livelihood of Canadians, as the accompanying photos depict. Our review of the management of the weather forecast preparation function was guided by the fact that the weather forecast is the most important product produced by AES.

The Major Weather Forecast Products

9.21 The main products of weather forecasting and the potential user groups are summarized as follows:

- Weather warnings, where the safety of life and the security of property are threatened. Threats due to severe thunderstorm activity and potential tornado activity are local and the warning usually applies to a given community or group of communities. Threats from large winter storms apply to more general areas and a broader segment of the population. Severe storms at sea affect the lives and livelihoods of people engaged in fishing, oil exploration, merchant shipping, and recreational boating.
- Weather forecasts for use by weather-dependent activities such as aviation, shipping, and private and commercial road transportation.
- Weather forecasts for use by weather-dependent industries such as forestry, agriculture, and construction.
- Weather forecasts for the general public so that Canadians can make decisions in relation to the weather – for instance, whether to cancel a golf game, plan a trip to the beach, or buy snow boots.

Dissemination of the Forecast

9.22 The regional weather centres transmit their forecasts to a series of 59 weather offices distributed throughout the country. The weather offices are staffed by presentation technicians trained by AES. They read or interpret, but do not modify, the weather forecast for specific clients or the general public. These AES technicians often become well known personalities because of their appearances on local radio and TV as weather briefers.

9.23 The weather offices use a variety of means to disseminate information, including:

- communication with newspapers;
- communication with radio and TV stations, often involving direct appearances;
- direct briefings;
- direct telephone conversations or the use of recorded messages; and
- the operation of radio transmission facilities ("weatheradio") which broadcast continually on a dedicated VHF frequency.

Observations and Recommendations

9.24 We designed our audit to focus on both the system that produces the regional forecast and the system that disseminates the forecast to the ultimate users. The Department agreed with a set of criteria that we developed to guide our audit. Our audit observations pertain to four areas:

- response to the demand for weather services;
- professional personnel resources in forecasting;
- quality assurance relating to the forecast products before public release; and
- information for the management of the assembly of the regional forecast products and for the forecast production process.

9.25 Our actual audit work involved a detailed examination of the forecast preparation process. One important part of this examination was the completing of comprehensive questionnaires by management responsible for forecast preparation, by the majority of senior forecasters and by a representative sample of junior forecasters. These questionnaires formed the basis for further in-depth examination and exhaustive discussions on the forecast preparation process.

9.26 We visited eight of the nine regional forecast centres and conducted approximately 70 formal interviews. Each interview averaged two and one-half hours (with a range of from two to eight). Much of this took place in the evening, early morning and weekends because of the nature of shift work. We observed a consistent response to our questionnaires.

9.27 In addition, we had extensive discussions with the U.S. National Weather Service and private sector meteorological consultants in both Canada and the U.S.

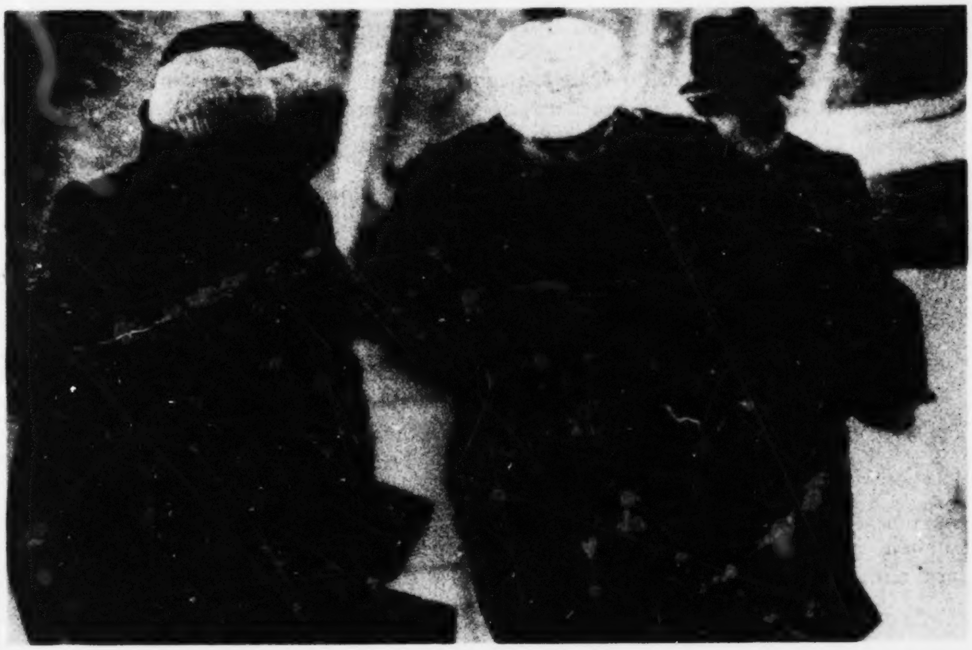
Responding to the Demand for Specialized Weather Services

9.28 In addition to its basic weather forecast services, AES receives an almost unlimited quantity and range of demands for specialized weather forecast services. These demands come from all sectors of the economy including aviation, forestry, fishery, agriculture, tourism, construction, municipalities, winter maintenance crews, frontier energy activities, and the general public.

9.29 Our audit criteria recognized that for AES to manage successfully its response to the total demand for its weather forecast services, it needed a policy framework that clearly set out:

- what the role of AES was under its broad mandate; that is, what should be done by AES, what should be done by other agencies of government and what should be left to the private sector;

The quality of the regional weather forecast is vital. In cases of severe weather, the forecast can affect the survival and livelihood of Canadians.



Courtesy Ottawa Citizen

Courtesy Toronto Sun

- what services should be provided at public cost and what should be subject to some form of cost recovery or revenue generation; and

- who should disseminate weather forecast information and how, and what relationship should AES have with the media, particularly radio and TV.

9.30 AES does not yet have such a comprehensive policy framework. It is dealing with demand for specialized services in an ad hoc and inconsistent manner.

9.31 **The weather forecasting role of AES.** The broad legal mandate of AES comes from the Government Organization Act of 1979 which extends to the Minister of the Environment the duties, powers and functions relating to a number of areas, including "meteorology". This is expanded in the Estimates as follows:

> To ensure that Canada has adequate information on the atmosphere, ice and sea state for the safety of life, the security of property, the greater efficiency of economic activities and for the maintenance and enhancement of environmental quality.

9.32 Since public resources are limited, and given this very broad mandate, it is incumbent upon AES to define its role with respect to other government agencies (both federal and provincial) and with the private sector.

9.33 AES has not defined its role within this mandate, and there has been no effective policy to guide what meteorological activity it should or should not be engaged in.

9.34 In the absence of such definitions, there are inconsistencies in practices and in priorities:

- There is no uniform provision of services to municipalities throughout Canada. We noted that one forecast centre had a private telephone link to a major municipality to provide advice direct to snow removal crews. However, this service was not available to other municipalities. Another major municipality contracts for such services with the U.S. private sector. Several other municipalities receive winter weather information from a small Canadian meteorological consulting organization.

- AES has not treated the provision of specialized marine forecasts as a priority. This was noted for certain west coast fishing areas in a recent public enquiry. Although sea state information for marine interests would appear to be a priority according to the statement in the Estimates, AES is only now setting up to provide such information in a comprehensive way.

- Clarification of responsibilities is lacking in those areas where provincial agencies have been traditionally responsible for delivering services to certain sectors of the economy, such as forestry and agriculture. Several provincial agencies provide some special purpose meteorological services; others choose to depend on AES. Many joint activities are undertaken.

- Although AES has a policy that encourages the development of private sector meteorology, there is no evidence that it has been effectively implemented. AES has enjoyed a virtual monopoly in the practice of meteorology in Canada. The private practice of operational meteorology in Canada is restricted to very few Canadian practitioners.

9.35 As a consequence of this situation, there is no assurance that AES is determining its priorities for specialized services in an orderly manner and there is a risk that it is inhibiting the growth of the private meteorological sector in Canada.

9.36 **AES should clearly set out its role, with reference to its mandate, in terms of what should be done by AES and what should be left to other agencies of government and the private sector.**

Department's response: The Department agrees that this should be done more clearly and work is under way to this purpose.

9.37 **Cost-recovery policies.** Once it has been established what services are to be provided by AES, it is then important that there be a clear policy regarding who pays.

9.38 We found that AES has not adequately defined the core services it is obliged to provide at public cost and those special services provided at the request of specific clients who should be charged. Although AES has drafted a policy that recognizes this in principle, it is only now defining "core" and "special" services to assist in implementing further cost recovery.

9.39 Over and above the provision of basic weather forecast information, AES regional personnel function in a consultative capacity by providing information of an interpretive nature in response to special-purpose requests for a wide range of clients. Notwithstanding the specialized nature of these requests and the incremental costs involved, no charge is usually made for these services.

9.40 In the past, revenue generation has tended to centre on charges for clerical services (photocopies, prints, microfiche, etc.), involving relatively insignificant dollar values. In most weather offices we visited, even these small cash items were not collected on a consistent basis. In 1983-84, revenue derived from sources external to the federal government amounted to $1.7 million of which $0.5 million was derived from two large clients.

9.41 As a consequence of previous policies of very limited cost recovery, AES may have lost the opportunity to recover significant costs. However, since our audit work was completed, initiatives have been taken to define "core" services and to set in place revenue generation and cost-recovery activities.

9.42 AES should categorize those services to be provided at public cost and those that should be subjected to some form of cost recovery and define the extent thereof.

> *Department's response: Agreed. Under recent direction from Cabinet, AES has drafted a refinement of its policy defining those services to be provided to all Canadians from general tax revenue, those to be cost recovered, and those to be left for the private sector.*
>
> *There is potentially some conflict between revenue generation (cost recovery) and encouragement of private sector meteorology. AES is drafting policies to clarify this issue. Recent government policy on revenue generation and cost recovery is assisting AES in this exercise. For the 1985-86 fiscal year and beyond, revenue generation targets in the Estimates are linked directly to the resources allocated to AES.*

9.43 **Dissemination of weather services.** According to our audit criteria, AES should set out policy stating who should disseminate weather forecast information and how it should be disseminated.

9.44 Where there is a clearly identifiable client (such as in the case of aviation), we found that appropriate dissemination channels do exist. Communications are usually simple and dedicated, using private telephone lines, telex and direct briefings.

9.45 Where there are no clearly identifiable specific clients, such as in the case of the public weather forecast, mass media methods such as radio, television, pre-recorded telephone messages and "weatheradio" are relied on to assure dissemination. Most of this communication originates from a network of 59 weather service offices across Canada, staffed by technicians who are the contacts with the public and the media (particularly radio and TV).

9.46 Most Canadians obtain their weather information from radio and TV broadcasts; AES believes that this method works well. In fact, AES enjoys a special relationship with the media in that the media distribute the forecast at little or no cost to AES, and the media benefit from the listener and viewer attention attracted by the weather forecast. However, AES has little control over the manner in which the forecast is presented. Furthermore, the media are in a position to apply powerful pressure on AES relating to the level of service (for example, frequency of forecast revision) they perceive they need from AES.

9.47 When weather warnings are issued, there is a need to rely on the special ability of key emergency centres in the community (police, fire fighters) as well as the electronic media. Furthermore, there is a need to ensure that the right information is received and correctly interpreted by Canadians affected by the forecast. We found that in issuing weather warnings, AES has clear priority procedures as to how the weather services offices are to react. However, because the present AES/media relationship is not well defined, the impact of the weather warning may be considerably reduced through:

- inadequate procedures governing how the media would set out the broadcast priority and air time to be given; and
- incomplete guidance to the media as to what information should be communicated so that potentially affected Canadians can take action to protect their lives and property.

9.48 **AES should negotiate contractual arrangements with the media that clearly specify their relationship in terms of:**

- **AES obligations concerning the level of service to be provided to the media; and**
- **media obligations in regard to the quality of weather forecast information, dissemination and their responsibilities under weather warning conditions.**

Department's response: AES is continuing discussions with media representatives, such as the Radio-Television News Directors' Association, Nouvelles Télé-radio, Broadcast News; the CBC, and individual stations, to ensure accuracy and timeliness in the dissemination of forecasts and particularly of weather warnings. The possibility of contractual arrangements as recommended by the auditors will be pursued.

9.49 Compared to most federal government services, the services provided by AES are conspicuous and affect many aspects of social and economic life. However, AES does not have a comprehensive policy statement, for example, like the one adopted by Parks Canada to explain its policy to all Canadians in terms of role, range of services, relationships with other agencies and costs.

9.50 **Once AES has established a comprehensive policy framework setting out its role, cost-recovery policies and relationships with the media, it should produce a comprehensive document that clearly spells out this policy framework in practical terms.**

Department's response: This will be done.

Professional Forecasting Resources

9.51 The critical personnel in a regional forecast centre are the professional meteorologists on the forecast team. An AES in-house training program ensures that all new meteorologists, employed by AES in forecasting as well as non-forecasting roles, meet specific standards in weather forecasting techniques. Since the regional forecast is considered by most to be the most important product produced by AES, our audit criteria recognized that AES management should have some well developed process to identify, from among its total complement of professional meteorologists, those most suited to a forecasting role, and that AES should be using this process to assign and retain personnel in forecasting.

9.52 We concluded that forecasting is used more as a training ground for higher paid staff positions (non-forecasting) than for grooming future senior forecasters and shift supervisors:

- We found no plan, process or system in place to identify, within the total AES complement of professional meteorologists, those most skilled for the forecasting role, or to retain them in this role. On the contrary, forecasting staff are presented with strong incentives to leave the forecasting role. Many non-forecasting positions carry more status, higher pay, better working conditions (no shift work) than the senior forecasting position, that of shift supervisor. We noted that AES is aware of a low morale problem among forecasters that is a result of their perceived low status in the AES organization.

- Many meteorologists leave forecasting at a relatively junior level for various staff and management functions, but there is practically no movement back to forecasting. Therefore, the forecasting function incurs the cost and burden of training some of its best resources but benefits only indirectly from the diversified experience these people gain from working in other parts of the organization, such as in research and other staff activities.

- For those meteorologists who stay in forecasting, possibly because of a preference for operational forecasting, the average tenure for senior meteorologists and shift supervisors is approximately 20 years. Once they attain a relatively senior forecasting position, they seldom move out. This, combined with the fact that staff do not move into forecasting from other areas, means that there are opportunities missed to introduce new ideas and technology to the important forecasting function.

- The shift supervisor, who has sole authority to issue weather forecasts and warnings, has relatively low organizational status (Exhibit 9.5).

9.53 As a consequence, AES has no assurance that its most skilled professional meteorologists are in the critical weather forecasting role. This could adversely affect the quality of weather forecasting generally.

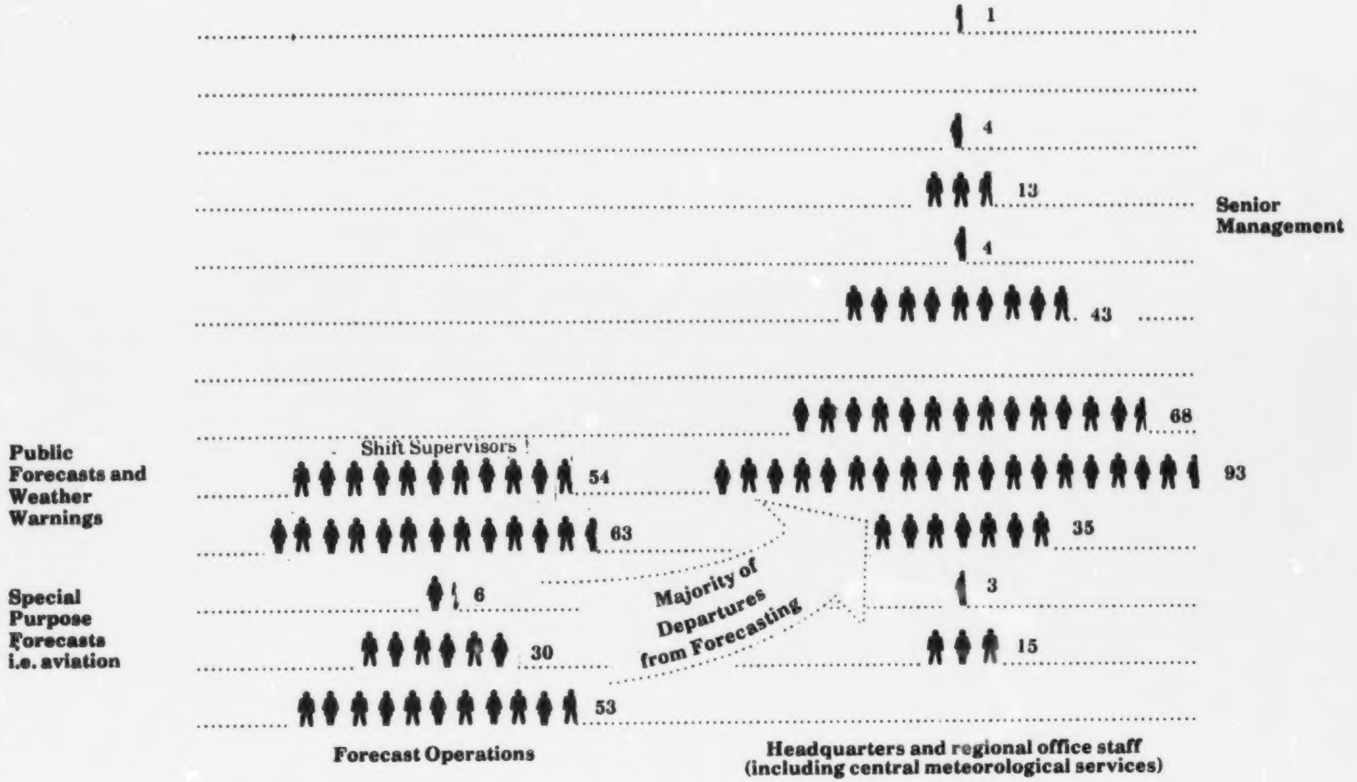
9.54 **AES should take appropriate measures to ensure that the weather forecasting function is able to retain those professional meteorologists who are most skilled in weather forecasting.**

Department's response: AES agrees with the finding that it is difficult to retain such meteorologists in the forecasting role. This is because of their present inadequate compensation for shiftwork – pay and classification level. AES will continue to press central agencies to improve the benefits for shiftworking

Exhibit 9.5

DISTRIBUTION OF PROFESSIONAL METEOROLOGISTS BY ORGANIZATIONAL LEVEL IN AES

(Excluding 100 Professional Meteorologists Providing Services Directly for the Department of National Defence)



Note:
- Relatively low organizational status of Shift Supervisors who have the authority to issue weather forecasts and warnings.
- Forecasting is the role of the more junior professional meteorologists.
- Forecasting serves as a stepping stone for meteorologists moving to senior non-forecasting positions.
- Most senior meteorologists are not in a forecasting role.

= 5 people

meteorologists. Concerning the observation about identifying skilled forecasters, the Service, through evaluations after the initial training program and regular evaluations thereafter, believes it does have a good system for identifying the most highly skilled forecasters.

Quality Assurance

9.55 Quality assurance is an aspect of management control over forecast preparation that ensures forecast products are of appropriate quality before public release. It is very important because weather forecasts contain information on the basis of which users make decisions that often involve irrevocable commitments.

9.56 During our audit, we observed that there were many factors that could affect the quality of the weather forecast. However, there are only certain factors that can be controlled during a shift. These include:

- thoroughness of the diagnosis of present weather conditions;
- reasonableness of the regional weather prognosis;
- consistency among all the weather forecast products;
- adherence to schedules and prescribed formats;
- monitoring changing weather conditions; and
- prompt amendments of forecasts when conditions warrant.

9.57 Our audit criteria recognized that most of these factors were in the area of professional judgement; therefore, it would be reasonable to expect that AES would have appropriate peer review and management scrutiny measures in place to support the exercise of professional judgement through:

- ample provision for expert scrutiny of the weather forecast before release;
- opportunity for including independent opinion;
- encouragement of timely feedback from weather dissemination offices; and
- encouragement of vigilance.

9.58 As a result of our audit findings, we concluded that there are weaknesses in the quality assurance currently applied to the weather forecast assembly process. In our judgement, these weaknesses could be attributed to management's view that review of the forecast after its release to the public constitutes adequate control.

9.59 As indicated by our detailed audit work, AES management depends almost totally on the shift supervisor to scrutinize all forecast products to assure their quality. However, the shift supervisor is constrained in applying this scrutiny by the following conditions:

- The shift supervisor usually has significant forecasting duties.
- The team often has trainees that impose additional loads on the supervisor.
- During severe weather, the shift supervisor is otherwise occupied with monitoring changing weather conditions and has even less time to scrutinize the products of junior forecasters when the need for scrutiny is greatest.

9.60 There is very little independent scrutiny of the shift supervisor's work. Managers immediately senior to the shift supervisor (the chief meteorologist and the officer in charge of the forecast centre) have the opportunity to be involved in scrutiny only during the day shift. Their involvement on weekends and with the night shift, which produces the morning forecast, considered by most users to be the most important, is minimal. We found that this results in two levels of potential management scrutiny during the day and essentially minimal management scrutiny during the night shifts and weekends.

9.61 We also found that, in some teams, there is limited rotation of duties among the various forecasting desks – public, aviation and marine – and there is, therefore, limited opportunity for independent review of each team member's work by other team members.

9.62 Although there is no formal system or procedures in place, we noted that forecast centres receive timely feedback and comments from the weather service offices which are the front line for dissemination.

9.63 Generally, forecasts are produced on schedule and in the format prescribed by AES management. With the system that management has for monitoring forecast operations, late forecasts become very conspicuous. However, we noted that the pressure to meet schedules can be detrimental to forecast quality. We were advised that a late or missing forecast is unacceptable, but amendments to the forecast can be disseminated at any time.

9.64 As a consequence of the weaknesses discussed above, AES cannot be assured that it is producing forecasts of the quality that it is capable of producing.

9.65 **AES should explicitly recognize the importance of quality assurance as an integral part of weather forecast preparation, through better organization and use of its existing personnel currently involved in forecast preparation.**

Department's response: The accountability and responsibility of forecast centre managers and shift supervisors for quality assurance is clearly defined. This is *written into their job descriptions. In addition, senior management rates these officers on the performance of their offices.*

AES will take steps to reaffirm the responsibilities of forecast centre managers and shift supervisors for quality assurance, both during the shift and in post-evaluations of forecasts. Verification of several northern hemisphere countries' forecast weather maps, undertaken in a World Meteorological Organization study (reference WMO/CAS Data Study and Intercomparison Project - L. Bengtsson/Antti Lange, 1979-80) indicates that AES forecasts compare very favourably to the best forecasts issued.

Management Information

9.66 Our audit criteria recognized that for AES to manage the process for the assembly of the weather forecast and the overall forecast production process, it needs two types of management information:

- client/user information on what the accuracy and the usefulness of the weather forecast products are; and
- diagnostic information on the assembly and production processes so as to be able to differentiate among the various factors contributing to the overall accuracy and usefulness of the forecasts.

9.67 These kinds of management information can exist in many forms – formal, informal, ongoing, periodic – and they are important in terms of dealing with resource allocation decisions among the following factors:

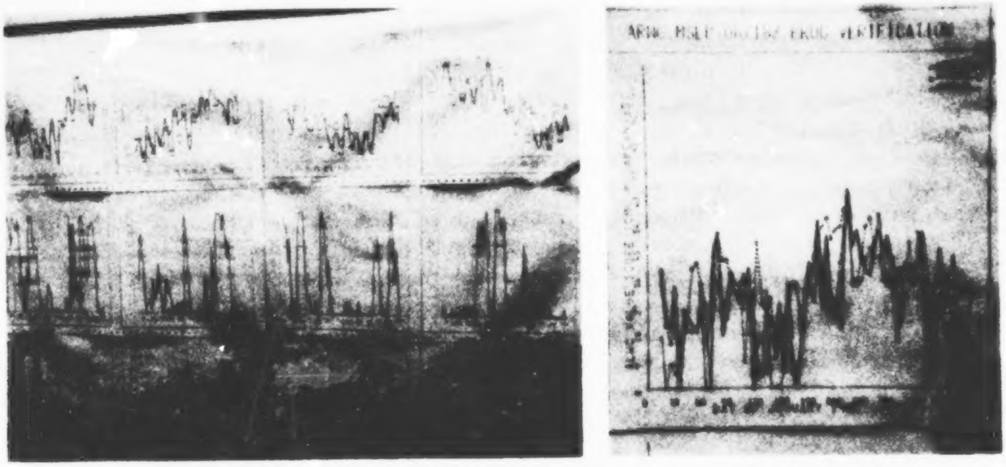
- forecaster skills;
- workstation environment;
- numerical weather prediction guidance;
- weather observations (accuracy and completeness);
- radar installation;
- satellite imagery; and
- communications.

9.68 Although AES has dedicated considerable time and effort to systems designed to measure the accuracy of AES numerical weather prediction (NWP) guidance and regional weather forecasts, they yield limited useful management information:

- They indicate to the regional forecast centre only when a forecast was wrong and not why a forecast was wrong and how things could be improved in the future.

- **Most operational forecasters do not find information generated by the forecast verification scoring system useful in their day-to-day work.**

- **Where records exist for over 20 years or so and are considered to show a gradual improvement in the accuracy of regional weather forecasting, AES does not know whether to attribute this improvement to NWP guidance, weather satellite imagery, forecaster training or workstation support.**



AES dedicates considerable time and effort to measuring the accuracy of its numerical weather prediction guidance and regional weather forecasts. However, this yields limited useful information for management (see paragraph 9.68).

9.69 AES has no formal systems to determine whether forecasts are useful to users. Of the informal sources of management information that we reviewed, including minutes of meetings with specific clients, surveys of public forecast users, unsolicited correspondence received by AES, and technical notes prepared by forecasting staff, we found no significant information from the clients that would allow shift supervisors and chief meteorologists to know how well they are doing or how they could do better.

9.70 AES management has very limited diagnostic information relating to how various factors such as forecaster skill, workstation environment, NWP guidance, weather observations, satellite imagery or communications contribute to the accuracy of the weather forecasts.

9.71 AES should review its information systems to determine those that yield appropriate management information on the contribution made, by the following inputs, to forecast accuracy and utility:

- **forecaster skills;**

- **work station environment;**

- **numerical weather prediction guidance;**

- **weather observations (accuracy and completeness);**
- **radar echoes;**
- **satellite imagery;**
- **communications.**

Department's response: *AES will undertake the proposed review of information systems to determine if more useful information to management can be developed. However, this has been found to be difficult in all countries. All of these factors affect the quality of the forecast. On one day one of them will be most important; and on another day another. All are intermixed in both computer models and in the forecaster's thought processes. There is general agreement in the meteorological community that NWP guidance, satellite imagery and radar data make important contributions to forecasts with, at this stage satellite and radar data contributing more heavily to short range (less than 1 day) forecasts, and NWP contributing more to the quality of the 48 hour and longer forecasts. Much professional judgement must be applied on the appropriate mix of inputs to the forecast process.*

Other Observations

9.72 In addition to the audit work reported above, we also carried out department-wide transaction reviews. Most of the 57 transactions reviewed met the applicable audit criteria or contained deviations that were not considered sufficiently significant to report to Parliament. The exceptions are discussed below under the following headings:

- Building leased for the installation of major computer equipment;
- Major computer acquisition; and
- Contract for the supply of aircraft for ice reconnaissance.

9.73 **Building leased for the installation of major computer equipment.** AES and its agent, the Department of Public Works, were placed in a "captive tenant" position when negotiating a renewal of a lease (October 1980 - September 1985) for a building that contains the Canadian Meteorological Centre in Montreal. A further renewal in 1985 resulted in a 20-year lease. This could cost the Crown substantially more than might have been necessary had alternative arrangements been more actively pursued in time.

9.74 The Canadian Meteorological Centre is a component of AES, based in Montreal. It operates computer facilities that process all the atmospheric data of Canada and provides meteorological information across the country and internationally.

9.75 Since 1973, the Centre had been a tenant in a building leased from a privately owned company. The lease was due to expire in September 1980.

9.76 The Centre had for some time been contemplating a significant increase in its computing capability. In June 1981, the Treasury Board approved in principle a computer procurement plan that was estimated to cost $23 million for the period 1981-85 and was to include the acquisition of two large computers in the fall of 1981 and a much more powerful computer in the fall of 1983.

9.77 The Department of the Environment specified, in writing, AES's space requirements to Public Works in January 1980 eight months before the lease expired. The Department of Environment's request did not indicate any space modification requirements.

9.78 Prior to signing a five-year lease in December 1980 for October 1980 to September 1985, various alternatives were considered by Public Works and Environment, including recommendation for expropriation of the Centre's present site and potential relocation to the old Post Office building. Both were abandoned.

9.79 The commitment to a five-year lease as well as the installation of valuable computing equipment in the leased space severely limited the future flexibility of AES to pursue alternative accommodation.

9.80 Three months after the Department of Public Works signed the lease, the Department of the Environment informed it of its need for additional space, although it had known of its requirements much earlier. In September 1981, Public Works contracted with the landlord to make modifications to the building in the amount of $245,000, mostly to accommodate cooling and power supply equipment, even though Treasury Board approval was not received until April 1982, after the work had been completed. One of the conditions of Treasury Board's approval was that Public Works re-evaluate the long-term strategy of the Centre's space requirements.

9.81 In February 1983, Public Works made a cost comparison between the purchase of the property and the landlord's proposal to renew the lease from 1 October 1985 to 30 September 1994. It recommended, with Environment's support, that the property be purchased at its fair market value of between $2 million and $4 million. However, the landlord did not want to sell.

9.82 In June 1983, a new 20-year lease was entered into with pre-determined rents for the first 10 years, ranging from $525,000 per annum in the first year to $744,722 per annum in years 7-10. The lease contained an option to purchase in the years 1994-95 and 2001-02 at a price equal to 11.8 times the annual rent at that time. Another condition of the lease was that the landlord reserved the right to be the prime contractor for major improvements to the building or its systems.

9.83 In June 1981, Treasury Board approved in principle an amount of $1.7 million for capital expenditures relating to site preparation for the large computer ($1.2 million) and the acquisition of uninterruptible power supply units (UPS) ($0.5 million), to be spent during the period 1981 to 1985. In June 1983, Treasury Board gave formal approval for these expenditures that had by then increased to an amount of $3 million, representing $1.3 million for site preparation and $1.7 million for the purchase of the UPS units. Prior to approval by Treasury Board, the Department of the Environment had spent or committed most of the funds required for site preparation. Inadequately defined requirements, lack of appropriate approval, insufficient funding and protracted negotiation with the landlord over the fee to be received have caused delays in installing the UPS units. As a consequence, the computing facilities have been susceptible to power failures and the additional costs resulting from them.

9.84 **Major computer acquisition.** In 1981, AES prepared a needs analysis looking to update its numerical weather prediction facilities. This needs analysis was seeking approval in principle to enter into a leasing process that ultimately resulted in a commitment of $32 million for computer services over a 10-year period. The computer equipment was eventually housed in a leased building in Montreal that holds the Canadian Meteorological Centre. The building lease was dealt with previously; here we deal only with the need for computer services.

9.85 The needs analysis discussed many uses of the computer services in AES in the areas of climate and environmental research as well as other areas not related to AES. However, our audit was limited to reviewing the need for AES to update its numerical weather prediction facilities – the stated purpose of the needs analysis.

9.86 Based mainly on our audit work covering weather forecast preparation, we concluded that the needs analysis was not sufficiently complete and reliable for the purpose of approving an expenditure of this magnitude to generate numerical weather predictions.

9.87 Numerical weather prediction (NWP) is a product of the Canadian Meteorological Centre located in Montreal. CMC is devoted to producing weather analyses and prognoses by computer for the whole of Canada for up to five days into the future. These prognoses or numerical weather predictions require enormous computer power and access to global weather data. Numerical weather predictions are used by the regional forecast centres as guidance in producing local weather forecasts up to 36 hours and represent the only means of forecasting weather beyond 36 hours to five days.

9.88 The needs analysis stated that the prime objective of AES was to forecast the weather and that current services provided by AES contributed $1 billion a year to the Canadian economy. What the needs analysis failed to point out was that short-range (up to 24 hours) Canadian weather forecast products do not yet depend critically on numerical weather prediction. Where forecasts do depend on NWP, we found that at the time of the audit, U.S.-produced guidance was a major input into regional forecasts. However, AES did not know whether obtaining NWP from the U.S., adequate to Canadian needs, would cost less because cost estimates were not obtained.

9.89 The needs analysis points out that improvements in forecasts of atmospheric conditions over the last two decades can be attributed to improvement in numerical weather prediction. The paper failed to mention that there is some professional controversy about whether some significant improvements for forecasts up to 24 hours, which are the most important forecasts, could be attributed equally to U.S. weather satellite imagery.

9.90 In its discussion of maintaining the present level of service, the needs analysis states that the AES weather forecast system is now totally dependent on the analyses and prognoses provided by the Centre. We found that the regional forecast centres, on the whole, preferred the U.S. NWP model prior to the introduction of new models at the Canadian Meteorological Centre on the more powerful computer. Furthermore, because the factors affecting forecast quality are so unrelated, AES does not know the effect of any NWP model on the accuracy of the regional forecast.

9.91 The needs analysis states that with the new, updated NWP facilities, global models can be run for forecasts out to five days. However, it did not discuss the alternative of accessing the European global model available to Canada through membership in a European consortium.

9.92 **Consistent with criteria relating to the audit of capital assets, AES should report on the marginal effect of the acquisition of the computer services. This report should indicate the improvement in the accuracy and the utility of regional weather forecasts and the economic value of longer-range forecasts, that can be attributed to the acquisition. This report should be completed before AES embarks on any further commitments relating to computer equipment for numerical weather prediction.**

> *Department's response: The CRAY computer has been used extensively for research by AES on acid rain, climate change and numerical modelling of the atmosphere as well as by 25 university and other users who would otherwise have had to use foreign facilities. AES will report on the operational value of the CRAY computer before new facilities are requested, and will also report on the research value to AES and to the Canadian research community at large. Early operational results with the CRAY indicate substantial improvements in forecast weather maps for 36 and 48 hours.*
>
> *In connection with the observation concerning the "needs analysis", it should be recognized that this was only one source of information for management and ministerial decisions on the the Centre's computer.*

9.93 **Contract for the supply of aircraft for ice reconnaissance.** Since 1972, under several successive contracts, a major regional airline has provided Environment Canada with the aircraft, crews and equipment necessary to conduct year-round ice surveillance in support of AES's Ice Reconnaissance Program. Payments made under the actual contract are based on a price-per-aircraft flying hour (minimum utilization is 2,200 hours per year) plus all other costs related to the flights (fuel and oil, travel, accommodation, and meals for the crew and government personnel).

9.94 Our audit focused on the system of control established to monitor the terms of the contract and payments made under the contract, covering the period 1 June 1982 to 31 March 1985.

9.95 Payments of $6.7 million for use of aircraft (65 per cent of the annual cost of $10.2 million of the contract) were made in accordance with the terms and conditions of the contract. Similarly, fuel costs of $2.8 million (28 per cent) were properly incurred, although there were some weaknesses in control over refuelling that were brought to the attention of management.

9.96 Under the terms of the contract, DOE is required to reimburse the carrier for travel and accommodation expenses that are reasonably and properly incurred by the crew with no allowance for overhead or profit. For the period January 1983 to September 1984, the carrier billed for crew airfares amounting to $130,000. Of these, $80,000 was for the crew travelling on the airline's regular scheduled flights.

9.97 In connection with these charges, we observed that:

- When travelling on the carrier's regularly scheduled flights, the carrier billed according to prevailing airline fee structures rather than on the basis of actual incremental costs incurred.
- When using other airlines, the amount billed by the carrier sometimes exceeded the actual billings from the other airlines.
- There was no control to ensure that all billings were applicable to ice reconnaissance activities.

9.98 The contract requires that DOE reimburse the carrier for the actual cost of in-flight meals and other authorized expenditures incurred by or on behalf of ice observing personnel and for passengers who act for or represent DOE on board the aircraft. During the period tested, although the cost of meals to the carrier was $40.50 on a per passenger flight basis, the carrier charged and recovered $54.80 from AES. Based on the average duration of flights over a two-year period of eight hours (equating to a normal work day), we have assumed that the $54.80 was for one main meal, since AES incurred additional costs to provide snacks and beverages as a supplement to in-flight meals.

9.99 In addition, AES staff improperly claimed a full daily meal allowance regardless of any meals provided during flight. Over a three-year period, these additional payments would have amounted to $50,000 to $175,000, depending on the number of meals provided per flight.

9.100 The above costs have been calculated by the audit team, since management had made no such calculation and was therefore unaware of the costs in this area.

9.101 The contract contains certain bonus and liquidated damages provisions that are applicable under specific conditions. It also stipulates that the bonus is to be waived during periods of modification, overhaul and major maintenance to the aircraft. Although major maintenance required that planes be taken out of service at least twice a year, the bonus payments were made on an uninterrupted basis over a three-year period. The minimum amount of overpayments was approximately $96,000.

9.102 We concluded that the contract has generally been well managed except for reimbursement of travel and meal expenses and the payment of bonuses, which have been poorly managed, resulting in overpayments and questionable practices.

9.103 The Department has taken measures to recover the overpayments from the carrier and to ensure that, in future, payments will only be made in accordance with the terms of the contract. It has also ceased paying the daily meal allowance to employees.

LAW REFORM COMMISSION

LAW REFORM COMMISSION

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10

LAW REFORM COMMISSION

Overview

10.1 The Law Reform Commission of Canada (LRC) was established by the Law Reform Commission Act in 1971. The objective of the LRC is to study and keep under review, continually and systematically, the statutes and other laws comprising the laws of Canada with a view to making recommendations for improving, modernizing and reforming them. The LRC makes recommendations to Parliament through the Minister of Justice.

10.2 The Commission's research is organized under four major projects: Criminal Law (Substantive), Criminal Law (Procedure), Administrative Law, and Protection of Life. The Commission also performs sporadic work in the area of modernizing statutes.

10.3 The LRC consists of a President, a Vice-President and three other Commissioners, all appointed by the Governor in Council on the recommendation of the Minister of Justice. The Vice-President and the three Commissioners each has direct responsibility for supervising a specific main project; the President provides general direction to the whole program.

10.4 In 1984-85 the Commission had 47 person-years and a budget of $5 million. It also engaged consultants under contract, representing the equivalent of about 50 additional person-years. Approximately 70 per cent of LRC expenditures are for salaries and professional and special services.

10.5 The major outputs of the Commission are study papers, working papers and reports to Parliament. Study papers are prepared by the Commission to collect and collate current knowledge concerning a particular topic and contain the research leading to a working paper. Working papers are statements setting out the status of the Commission's law reform research in a given area at the time of publication, and they contain tentative recommendations for reform in that area. Their purpose is to elicit comment and provide a vehicle for public consultation. Reports to Parliament contain the final recommendations of the Commission for reform in a particular area.

10.6 Since its establishment in 1971, the Commission has produced over 60 published and over 100 unpublished study papers. This research helped to produce 34 working papers and 22 reports to Parliament.

10.7 The Commission's work covers a wide range of interesting topics in the four major project areas. For example, in the past year, the Commission presented reports to Parliament on the subjects of Writs of Assistance and Telewarrants; Euthanasia – Aiding Suicide and Cessation of Treatment; Alcohol, Drugs and Driving Offences; and Disclosure by the Prosecution. It also published working papers relating to Police Powers – Search and

Seizure in Criminal Law Enforcement; Vandalism; Questioning Suspects; Homicide and Investigative Tests. Recent study papers included topics such as Pre-trial Eyewitness Identification, and Origins of Writs of Assistance in English and their Historical Background.

sanctity of life
quality of life
homicide
PROTECTION OF LIFE SERIES
STUDY PAPER

Examples of the publications of the Law Reform Commission of Canada: study papers, working papers and reports to Parliament.

Audit Scope

10.8 We examined the implementation of LRC's Research Program, project management, use of consultants, and related financial and administrative controls. We examined particularly the systems and procedures used in managing research in the areas of Criminal Law and Administrative Law. Our audit was concerned with the issues of economy and efficiency. We did not examine the quality of the research work carried out by the Commission.

10.9 We examined the Criminal Law Review Project as a case study. The Department of Justice and the Ministry of the Solicitor General participate in these projects and, therefore, our work incorporated information about their respective roles and responsibilities.

Observations and Recommendations

10.10 We acknowledge the special nature of the environment in which the Commission conducts research projects. It is a small organization relying primarily on academics and lawyers working on short consulting assignments. In this environment the emphasis is on the quality of research. While internal reviews and discussions, external consultations and other methods focus on enhancing quality, there is, in our opinion, insufficient emphasis on economy and efficiency, as shown by our findings on project management and the use of consultants.

Research Program

10.11 Section 12(1)(c) of the Law Reform Commission Act states that the Commission

> shall prepare and submit to the Minister from time to time detailed programs for the study of particular laws or branches of the law with a view to making recommendations for their improvement, modernization and reform, and shall include in any such programs prepared by it an estimate of the resources that will be required to carry out any such studies and the time that will be required for their completion.

Section 18 of the LRC Act provides for the Minister to table the program before Parliament together with a statement indicating any item the Commission proposes to examine that the Minister does not approve of. The Commission submitted its first program to the Minister in March 1972 who tabled it before Parliament without reservation.

10.12 The Commission estimated three years would be needed to complete its first research program encompassing topics related to both Criminal and Administrative law. It also envisaged submitting supplementary programs from time to time relating to further specific areas requiring or inviting reform. Parliament, by requiring the LRC to submit a plan and related resources under the LRC Act and by requiring the Minister to report annually on its activity, intended that it be informed on a timely basis about the progress that the Commission made. These requirements therefore are important tools in holding the Commission accountable for the use of its resources.

10.13 Since 1972 the Commission has not revised its original research program or submitted a supplementary or a second program, despite extensive changes in its work. For example, its current major projects of Protection of Life and Accelerated Criminal Law Review were not specifically identified in its 1972 research program. Also significant delays have occurred in carrying out its research program and significantly more resources have been committed to it than were envisaged in 1972. For example, none of the estimated completion dates was met, and many of the original projects are still in progress 10 years after their originally stated completion dates. The Commission maintains that a revised or second program was not necessary because all projects, including the current ones, were within the areas generally identified in the original research plan.

10.14 In our view, the failure of the Commission to update and submit research programs periodically has been one of the reasons why its work so far has had a minor impact on legislation. Frequent updates and periodic submissions could have helped to improve the focus of the Commission's research efforts toward areas of legislative priority to the government. Only in recent years has the Commission concentrated its attention and resources on projects and mechanisms that would enable it to be more focused.

10.15 The Law Reform Commission should formally revise and update its research program to reflect its current areas of research. The revised program should specify the estimated resource requirements and revised completion dates of the proposed projects and sub-projects.

> *Commission's response: The Commission recognizes the need for presenting a new research program to Parliament and had already planned to do so coincidentally with the winding down of the Accelerated Review of the Criminal Code in 1986. The Commission notes the remarks concerning specifying resource requirements and completion dates and will endeavour to incorporate such forecasting in the program.*

Evaluating Program Effectiveness

10.16 At the time of our audit, some recommendations from five of the Commission's 22 reports had been reflected in new or amended legislation. For example, Commission's Report 10 on Sexual Offences and Report 4, entitled Expropriation, contributed respectively to Bills C-127, an Act amending the Criminal Code, and C-60, the National Energy Board Act. Recommendations from many other reports were included in bills that died at the end of various sessions of Parliament. For example, several proposals in Bill C-19, an Act to Amend the Criminal Code, tabled by the government in 1984, included work from several Commission's Reports on the subjects of the Jury, Theft and Fraud, Contempt of Court, Alcohol, Drugs and Driving Offences, and so on.

10.17 The Commission, however, is not satisfied with its impact on legislative changes and readily acknowledges its modest record in comparison with that of other law reform commissions both inside and outside Canada. It explains, however, that while other law reform commissions mostly do work referred to them by their attorneys general, the LRC, because of its statutory independence, establishes its own programs and has not been asked by the Minister of Justice to carry out specific research activities. Therefore, the Commission's areas of research and study often have not been high priority areas for government legislative agendas.

10.18 The Law Reform Commission of Canada points out that new or amended legislation resulting from its recommendations is only one measure of its success and usefulness. It states that the impact the Commission has on judicial decisions, many of them by Appeal Courts including the Supreme Court of Canada, and the influence it has on law reform through research, education and changing public conduct are also important results, albeit some of them difficult to measure.

10.19 In its 1984 annual report to Parliament, the Commission identified as an achievement its impact in various areas of legal thought and practice. It is not clear, however, whether this impact was in line with the objectives of the Commission. If this impact was an objective of the Commission, then the degree to which it has been achieved has not been measured. In our opinion, as the Commission is nearing the completion of its first research program, it could benefit from an evaluation of program effectiveness. This would also enable it to clarify its objectives, help focus its activities, identify performance indicators and help establish performance targets.

10.20 The Law Reform Commission should carry out an effectiveness evaluation of its program.

> *Commission's response: In June 1985, Bill C-18, which contains recommendations from five different Commission reports, was enacted. This brings to 10 the total of Commission reports that have been acted on in whole or in part. Performance in the Commission's primary objective of making recommendations to Parliament is readily indicated in the number of its Reports, and its achievements in its secondary objective of influencing judicial decision-making are recorded in a cumulative record of such cases. Performance in public information and in influencing the teaching of law can be measured to a degree, but an accurate evaluation of the effectiveness in those objectives is difficult. The Commission recognizes the need to develop performance indicators for the longer-term objectives and will seek improvements as its resources allow.*

Project Management

10.21 The Commission's work is currently divided into four major projects -- Criminal Law (Substantive), Criminal Law (Procedure), Administrative Law and Protection of Life. Each of these is divided into sub-projects or topics on which a number of research consultants work under contract.

10.22 The Commission has managed many research and study sub-projects conducted by outside consultants. Research work on topics such as Crimes Against the Environment, Corporate Criminal Liability, Offences Against Safety and Security of State, and so on, each represents a sub-project. However, the Commission still has not developed a system and a methodology that would provide for the use of at least minimum project management standards and the application of consistent project management procedures and discipline. These project management tools need to be identified in the context of the Commission's operations and environment, and their use would improve the accountability of the consultants and the co-ordinators for their projects. A project management guide or a directive would be a useful starting point for this purpose.

10.23 Our audit revealed that there is little documented guidance or direction given to project co-ordinators for:

- identifying and assessing potential sub-projects,
- documenting sub-project proposals and plans;
- approving sub-project proposals and plans;
- resourcing sub-projects (dollars and research personnel);
- setting priorities for undertaking and completing sub-projects;
- monitoring and controlling sub-projects;
- reporting the status of sub-projects; or
- providing evaluation and feedback.

10.24 The absence of specific direction leads to inconsistencies and a lack of understanding by the co-ordinators as to what is expected of them. In general, we noted a lack of clear project management accountability. Examples of some of the most common deficiencies are:

- Research objectives stated in contracts are vague; for example, "legal research in the field of administrative law". The Commission explains that it is so by choice, because it gives the LRC more flexibility in respect of work assignments. In our opinion, vague research objectives and a lack of detailed workplans do not permit the Commission to monitor and control the work of consultants or evaluate their performance.
- Workplans are not always prepared for sub-projects. This was especially the case in the Administrative Law Project. For the Criminal Law Review Projects, some were prepared, but they lacked detailed tasks and resource plans.
- Individual sub-projects do not have budgets nor is a record maintained of the resources devoted to specific projects or sub-projects.
- There is a lack of firm commitment to deadlines and no requirement to account for variations. Monthly schedules of deadlines have shown frequent changes.

10.25 **The Law Reform Commission should develop an appropriate guide and methodology for project management to ensure better planning, monitoring and assessment of its projects and sub-projects.**

> *Commission's response: The Commission recognizes a potential for improvement in project management and will investigate the possibility of developing a more formal methodology and guide to the extent that current resources permit.*

Use of Consultants

10.26 All the research on legal matters carried out by the Commission is conducted by consultants under contract. The consultants work under the direction of project co-ordinators who are also consultants working under longer-term contracts. Each of the four project co-ordinators reports to a Commissioner for the project and to the Commission Secretary for administration purposes. Annually, the Commission uses the services of about 100 different consultants, many of whom come from Canadian universities. The cost of these research contracts is approximately $1.5 million. This is a major expenditure for the Commission.

10.27 In accordance with section 7.2 of its Act, the Commission can engage the services of consultants and, with the approval of the Minister of Justice, fix and pay their remuneration and expenses. In 1971, the Deputy Minister of Justice concluded that the Commission is not an agent of the Crown and that, because of this, the Government Contract Regulations do not apply to contracts entered into by the Commission.

10.28 We reviewed a sample of the files of 20 consultants to assess the Commission's process for selecting and hiring consultants as well as its method of monitoring and assessing their performance.

10.29 In relation to contract administration, the role and responsibilities of the Administrative Committee, comprising the President, the Vice-President, the Secretary and the Director of Operations, are not documented. The Commission has also not documented its contracting procedures. Nor are its minimum expectations for project co-ordinators and Commissioners set out regarding:

- documentation required when recommending a consultant;
- development of objectives or workplans for a consultant's assignment;
- establishment of timetables and deadlines; and
- assessment of performance.

10.30 The lack of documented procedures and guidelines has resulted in deficiencies in the contracting practices of the Commission. For example:

- Justification for choosing a particular consultant or a researcher is not documented. In the absence of tendering, this would be a necessary procedure to ensure reasonableness of a particular choice.
- Most contracts do not include specific objectives or require the development of workplans.
- No formal assessment of the contractor's performance is on file. Evaluations of contractors' performance, as well as serving as an essential feedback mechanism, can lead to improvements in the selection process.

10.31 **The Law Reform Commission should document its contracting procedures, the terms of reference of the Administrative Committee in respect of contracting, and its minimum expectations from project co-ordinators and Commissioners in relation to procedures to be followed in employing consultants.**

10.32 **The Law Reform Commission should ensure that consultants are given specific assignment objectives and workplans and that their performance is assessed.**

> *Commission's response: The Commission agrees to the merits of recording in documentary form the procedures it employs for contracting, including the terms of reference of the Administrative Committee and the roles of the project co-ordinators relative to employing consultants.*
>
> *The Commission agrees that it is desirable that all consultants be given specific assignment objectives and workplans, but notes it is difficult to do so in advance*

and that such a procedure would inhibit flexibility in re-assigning consultants at the Commission's discretion. The Commission prefers to remain selective as to the degree of specificity to be incorporated in work statements and in contracts. The Commission will study the feasibility and potential value of a formal performance assessment of consultants.

An Audit of Management Procedures of the Criminal Law Review

10.33 Our audit of the Criminal Law Review formed part of the comprehensive audit of the Law Reform Commission. However, in the interest of providing a rounded picture of the Review, we also audited the processes and management systems used by the Department of Justice and the Ministry of the Solicitor General in the Criminal Law Review. This chapter, therefore, incorporates some information about their participation in this project.

10.34 The purpose of the audit was to assess the appropriateness of the processes followed by the three organizations in carrying out the Criminal Law Review Project and in attempting to achieve its objectives.

10.35 We did not audit the appropriateness or quality of the research or draft legislation produced by the project.

History of the Criminal Law Review

10.36 The Criminal Code of Canada was first approved by Parliament in 1892. By 1938, the Archambault Report recommended undertaking a complete revision to the Code. In 1947, the Criminal Law Section of the Commissioners on the Uniformity of Legislation called for the establishment of a commission to revise the Criminal Code. A Royal Commission was appointed in 1949 and its work resulted in the Criminal Code of 1955. However, the Royal Commission's mandate was limited to a review of the organization and format of the Code, rather than its substance. In 1969, the Report of the Canadian Committee on Corrections (the Ouimet Report) recommended that a Committee or a Royal Commission be established to examine the substantive aspects of Criminal Law.

10.37 The Criminal Law Review began in 1971, when Parliament enacted legislation establishing the Law Reform Commission of Canada to keep under review the federal laws of Canada, with a view to making recommendations to improve, modernize and reform them. In 1976, the Commission published a report called "Our Criminal Law" which was a major philosophical examination of the basis of criminal law in Canada.

10.38 In a report tabled in the House in 1977, the Parliamentary Subcommittee on the Penitentiary System in Canada called for a fundamental reform of the criminal justice system. In October 1979, the federal and provincial ministers responsible for criminal justice agreed that an accelerated review of criminal law encompassing substantive law and procedure should be undertaken. On 27 November 1980, the Minister of Justice announced that he was setting in place a mechanism for the review of the criminal law that would expedite the enactment of a modern Canadian Criminal Code and amendments to related federal statutes. In June 1981, Treasury Board approved additional resources for the Review.

10.39 The Review was planned as a joint undertaking by the Department of Justice, the Ministry of the Solicitor General and the Law Reform Commission of Canada, with close working relationships with the provincial and territorial governments. In April 1981, the Law Reform Commission began to implement a workplan with a target for completing its share of the research work on the Review by September 1985. The target date for completing the Criminal Law Review is October 1986.

10.40 The overall management of the Criminal Law Review is the responsibility of an Executive Committee chaired by the Deputy Minister of the Department of Justice and including the Deputy Solicitor General and the President of the Commission. The Executive Committee is to monitor work progress and make recommendations on policy issues and options requiring ministerial approval. The Committee has delegated many of its responsibilities to a Program Management Group which has the Assistant Deputy Minister, Policy Programs and Research (Department of Justice) as chairman and includes the Assistant Deputy Solicitor General and the co-ordinators for this project, representing all three organizations. These co-ordinators have specific responsibilities for planning, controlling and co-ordinating activities in specific project areas. They and the Assistant Deputy Ministers and Commissioners to whom they report are the principal managers of the Criminal Law Review.

Constraints in a Review of the Criminal Law

10.41 A comprehensive review of the Criminal Code, both in form and substance, is a complex and difficult undertaking. If a coherent approach is to emerge, it requires the dedicated work of a number of legal scholars and experienced practitioners over several years. This work has to proceed in a context of several separate jurisdictions, differing interests, and changing political priorities. In addition to the inherent difficulties of the task, other problems of planning, controlling and co-ordinating have been created by the fact that the Criminal Law Review is a joint venture of three organizations.

Present Status of the Criminal Law Review

10.42 When the accelerated Criminal Law Review was begun in 1981, the operational objectives of the Review, as compared with its general intent, were not stated with precision. The objectives of the Review, as stated in November 1980, were broad statements that provided little specific guidance to the parties involved. The objective of the Review is defined only in so far as it will produce a substantive new Code comprising a general part (principles) and a special part. This Code may have a procedural part, or there may be a separate procedural Code. There may be other major pieces of law reform (in "corrections" or "clemency", or "sentencing", for example) produced in association with the new Code. In the absence of operational objectives, it is difficult for those responsible to determine whether the work completed and under way is adequate to produce the expected, although still undefined, final product of the Review. Many of the projects listed in the 1981 workplans will not be complete before the first draft of a new Code is written in 1985. For example, on 24 of the 34 projects in Substantive Law to be prepared by LRC much work remains to be done. Of the 34 projects, work on about 15 is in early stages or has not started. However, staff at the Law Reform Commission inform us that these remaining projects are, on the whole, less difficult and less important than those now completed. Also, in April 1985, of the 21 Procedural projects, work on 17 was in early stages or had not begun.

10.43 It is unlikely that the Criminal Law Review, as set out in the 1981 plans, will be completed by the revised target date of October 1986, given the present status of the Review and the work remaining to be done. Many of the sub-projects in the Review were first identified in the 1972 research program of the Law Reform Commission and have therefore been "active" for a long time. It is important that greater momentum be achieved to bring this work to completion.

10.44 The Law Reform Commission and the Department of Justice should revise and set a realistic completion date for the Criminal Law Review and should develop a stringent timetable and workplan to ensure that the Review is completed by the revised date.

> Commission's response: *The Law Reform Commission will co-operate in any review of the timetable and workplan for the Criminal Law Review.*
>
> Justice response: *The Department of Justice will co-operate with the Law Reform Commission and the Ministry of the Solicitor General in any re-evaluation of the timetable and workplan for the Review. This should be done in the context of the Executive Committee (see* infra *para. 10.54). It must be recognized that any decisions respecting the timetable for phases 2 and 3 of the Review (see* infra *paras. 10.46-10.48) are subject to legislative and other priorities as set by the Government from time to time.*

Accountability of the Management of the Criminal Law Review

10.45 One of the main areas of interest in this audit of the Criminal Law Review was whether management accountability for the work of the Review had been established and maintained. There are two aspects of this that are particularly important in a complex interdepartmental endeavour:

- work planning and scheduling; and
- control and monitoring.

10.46 **Work planning and scheduling.** The three organizations involved in the Criminal Law Review in 1981, agreed that each project in the Review was to be undertaken in three phases. Phase 1 was to consist of research and deliberations by the Law Reform Commission, culminating in a working paper on each major topic, consultations, and finally a report to Parliament with recommendations.

10.47 Phase 2 was, in the great majority of projects, to be the responsibility of the Department of Justice, comprising a detailed analysis of each recommendation in the Law

Reform Commission reports, formulating a suggested course of action for the government (including specific proposals for further work in areas where a report was considered deficient), and a consultation program.

10.48 Phase 3 was left vague. It was described as the "implementation stage" that could result in legislation, program development, revised administrative arrangements, or revised procedures. Drafting legislation, where appropriate, was to be primarily the responsibility of the legal drafting experts at the Department of Justice, supported by the full analytical and decision-making capabilities of the Department.

10.49 The phased approach to the Review applied not so much to the Review as a whole as to each of the topics. That is, at any particular time, some projects in the Review might be at Phase 1, some at Phase 2, and some at Phase 3.

10.50 The workplans for Phase 1 developed by the Law Reform Commission, and those developed for subsequent phases by the Department of Justice and the Ministry of the Solicitor General, have had common limitations. Specifically, they have listed research topics and milestones for various products, but they did not include either detailed terms of reference for the work to be done or detailed tasks and resource requirements.

10.51 A complex research-based endeavour such as the Criminal Law Review has uncertainties and requires a flexible workplan. However, lists of project titles with target dates, unsupported by any detailed task and resource analysis, do not constitute adequate project planning. To proceed without adequately detailed work planning is to ensure misunderstandings and delays at later dates and additional costs.

10.52 The organizations involved in the Review have not applied the project management practices necessary to plan and manage an interdepartmental research, consultation and drafting effort of this duration and complexity. The workplans for the Criminal Law Review provide limited support to an interdepartmental project of this size and complexity. For example, milestones and deadlines set out in various workplans have not been firm and accountable commitments, and have been changed frequently. Therefore, management of the Review as a whole has suffered, and interdepartmental co-ordination of work activities has been difficult.

10.53 The parties involved in the Criminal Law Review should engage the services of an expert in research project planning to assist the Criminal Law Review Co-ordinators in developing a detailed plan, including tasks, resources and timetables for the remainder of the Review.

> *Commission's response: The Commission is prepared to consider proposals for preparation of detailed project plans for the remainder of the Accelerated Review of the Criminal Code, subject to its current budgetary constraints.*
>
> *Justice response: The Department of Justice will give active consideration to this recommendation to see what could be gained by its acceptance. However, it*

challenges the finding that this Department's phase 2 workplans were ill-defined or that its schedules were subject to capricious change. The Auditor General has not indicated what standard he is using to assess the workplans of the Review. Standards for project administration vary according to the environment in which they operate. The Auditor General has not explored that environment in this Report; therefore, he cannot say that a change of administrative procedures would improve the quality of the product, or lead to greater satisfaction by the groups consulted, or reduce the cost of the Review. On the question of schedules, any changes in project timetables by the Department have been due primarily to delays in receipt of working papers and reports from the Commission on the one hand, or to decisions with respect to legislative priorities of the Government on the other.

10.54 The Executive Committee should formally approve milestones and deadlines for the Review.

Justice response: See response to paragraph 10.44.

10.55 **Control and monitoring.** The overall management of the Criminal Law Review is the responsibility of the Executive Committee established for this purpose. However, the Committee has delegated many of its responsibilities to the Program Management Group described previously, and the Committee has met infrequently.

10.56 There has been no detailed statement of the roles, responsibilities and procedures for either the Executive Committee or the Program Management Group. Informal communications and procedures may have filled this gap to some extent, but they have not solved the problem of providing overall planning, direction and control to the Review.

10.57 In addition, there is a lack of formal decision-making procedures in both groups. The Committees have functioned more as focal points for discussion than as decision-making groups. The Review is guided by general discussions at Committee meetings.

10.58 Month to month, the most important management roles in the Criminal Law Review are those of the Co-ordinators. The Co-ordinators cannot determine the overall policy direction of the Review or the overall level of resources, but otherwise they are in control of detailed work planning and management. Their capabilities as managers and their ability to work together are central to the success of the Review.

10.59 In conducting this audit we heard mutual criticism among the staff of the organizations involved. There was also little day-to-day working contact. Some mechanism for reflecting joint responsibility and some greater incentive for the staff in the three organizations to work together in mutually supportive ways are required.

10.60 The Department of Justice was designated as the lead agency for the Criminal Law Review. The Minister of Justice, in close collaboration with the Solicitor General and the Law Reform Commission of Canada, was designated to have overall responsibility for the management of the Review.

10.61 There is some ambiguity to this lead role by Justice, because the Law Reform Commission is autonomous and reports direct to Parliament. Also, in its main areas of responsibility, the Ministry of the Solicitor General is autonomous. The Department of Justice, therefore, has no authority to compel compliance to any decisions of the Executive Committee or workplans by other members of the Review.

10.62 Despite these uncertainties and ambiguities regarding the lead role, we believe that the Department of Justice has an important responsibility to provide overall management and direction to the Review. So far, the Department has not actively pursued this lead role. Specifically, the Department of Justice has provided insufficient interdepartmental work planning and monitoring of progress in support of the Executive Committee of the Criminal Law Review. Unless the Department assumes its responsibility, management of the Review will continue to be uneven and effective overall control will not be established.

10.63 The Department of Justice should actively pursue the lead role in the Review, through the Executive Committee, and should have primary responsibility for the successful and prompt completion of the Review.

> *Commission's response: The Commission has always recognized the leading role of the Department of Justice in the overall Accelerated Review of the Criminal Code.*
>
> *Justice response: The Department of Justice accepts that it has the lead role with respect to the ultimate presentation to Parliament of a new Criminal Code or amendments to the existing Code. It has not interpreted this lead role as including responsibility for the overall workplanning and monitoring of the Review as suggested in paragraph 10.62. As noted in paragraph 10.61, the Department of Justice "has no authority to compel compliance to any decisions of the Executive Committee or workplans by other members of the Review". The Department, therefore, cannot accept responsibility for the "successful and prompt completion of the Review". It is, however, willing to assume a more active role in terms of attempting to coordinate the activities of the members of the Review.*

The Basis for a New Code: Policy Development and Empirical Research

10.64 In 1981-82, proponents of the Criminal Law Review claimed that several policy development and empirical research projects were necessary before a coherent new Code could be drafted. By March 1985, a number of policy development projects had been completed, but many others scheduled for completion by this stage remained unfinished. Hardly any empirical research projects had been completed in support of the Review.

10.65 In 1981 the Department of Justice identified several empirical research topics that staff believed were necessary to provide a solid basis for the Criminal Law Review. A funding request was made in the Multi-year Operational Plan and in a document dated 8 March 1982, "Research in Support of the Review of the Criminal Code". The resources requested for the four years 1982-86 ranged between $1 million to $2 million for each year. The empirical research plan included many topics in criminal procedures and sentencing.

10.66 The proposal was aborted before presentation to Cabinet. Reasons for this included the cost, the belief that the research could not be completed in time to influence the Criminal Law Review, and LRC's lack of inclination to be involved.

10.67 There are differences of opinion about the importance of empirical research in support of the Criminal Law Review. However, those who believe that such research is necessary hold the opinion strongly. The original discussion paper for the Review stated that, without such research the whole process of the Code Review could be criticized, and the proposals for change in law could be seen as capricious. It also noted that the changes could lead to undesirable effects, with consequent public disaffection from law reform and related political processes.

10.68 In March 1985, many policy development, and most empirical, research projects originally proposed as essential to the Review had not been completed.

10.69 In summary, there has been no clear agreement on how much policy development and how much empirical research on reform of the substance and procedures of the Criminal Code needs to be completed before the drafting of a new integrated Code can proceed successfully.

10.70 **The Executive Committee for the Criminal Law Review should re-assess the empirical research requirements of the Review.**

> Commission's response: *The Commission has seen no need for empirical research in phase I of the Accelerated Review. However, it is prepared to participate in a re-assessment of the requirement for empirical research in the later phases.*
>
> *Justice response: The Department of Justice concurs in this recommendation.*

Consultations

10.71 The Criminal Law Review has consisted of two main activities: writing policy and working papers, and consulting on these papers.

10.72 Consultations have been conducted by all the organizations involved in the Review. The Law Reform Commission and the Department of Justice have convened meetings in different locations in Canada to discuss one or sometimes several of the papers produced by the Commission. The Ministry of the Solicitor General has participated in these discussions, and, in the case of the Correctional Law component/sub-project, distributed a "consultation paper" to individuals and organizations together with a letter asking for written comments.

10.73 Our observations on the consultations are as follows:

- There are no specific guidelines for the consultation process that have been approved by the Executive Committee or the LRC.
- The overall planning of consultations for the Review has been inadequate. The planning of consultations has been informal or non-existent. There is no master plan, and individual consultation plans are not routinely or consistently monitored to ensure that they were executed and that benefits from such consultations were fully realized.
- The lack of co-ordination of activities has led to some duplication of consultations.

10.74 **The Executive Committee should require that an overall consultation plan be drafted, should approve a set of guidelines for consultations, should approve a specific proposal and plan for each consultation exercise, and should receive a report on the conduct and results of the exercise once it is completed.**

> *Justice response: One of the first things that the Executive Committee did was to identify those groups that should always be consulted and other groups that merely should be kept informed of the progress of the Review. Therefore, general guidelines for consultations have, in fact, been established. Given that the mandate of the Executive Committee is "to monitor work progress and make recommendations on policy issues and options requiring ministerial approval" (see supra, para. 10.40), it is questionable whether the Executive Committee should become involved in approving specific proposals and plans for individual consultations. This is surely the responsibility of the Program Management Group which is charged with the day-to-day administration of the Review. Contrary to the finding on which this recommendation is based, the Program Management Group does examine consultations strategy in some detail for each project. A report on the consultations is received as a background document to any recommendations emanating from phase 2 of the Review.*

CANADIAN HUMAN RIGHTS COMMISSION

CANADIAN HUMAN RIGHTS COMMISSION

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11

CANADIAN HUMAN RIGHTS COMMISSION

Overview

11.1 The Canadian Human Rights Commission (CHRC) was established under the Canadian Human Rights Act in March 1978. Its objective is to uphold the principle that all persons should have an equal opportunity to participate in all aspects of Canadian life, taking into account their duties and obligations in society. The Commission deals with discrimination complaints relating to any of 10 prohibited grounds specified in the Act, and it works to reduce and eliminate discriminatory practices through educational programs, guidelines and research. Its jurisdiction extends to all federal departments and agencies and to federally regulated private enterprises in areas such as transportation, telecommunications, and banking. The Commission estimates that some 1,500 organizations are subject to the Canadian Human Rights Act and, although all Canadians may seek recourse under the Act, with regard to goods and services offered by these organizations, their 3 million employees are more likely to do so.

11.2 In the 1984-85 Estimates, CHRC budgeted $9.2 million in expenditures and 156 person-years. The Commission's activities are organized under three main branches – Complaints and Compliance, Public Programs, and Research and Policy. It has seven regional offices located in major cities in Canada. Approximately 52 per cent of the budget is devoted to handling complaints.

11.3 At the time of our audit, the Commission had identified the need for changes in its management processes to improve its economy and efficiency. It was clarifying the roles and responsibilities of its staff, designing training programs for investigators, streamlining the complaints management process, developing new and improved working tools, and initiating a new computerized management reporting system. These initiatives, however, were in the planning or early implementation stages and therefore we were unable to assess their impact on Commission's operations.

Audit Scope

11.4 Our audit focused on the processing of complaints from individuals, the major program activity of the Commission. We reviewed the process for receiving, assigning, investigating, monitoring and controlling complaints during investigation, and we examined the procedures for reviewing work for adherence to quality expectations and disposing of complaints through decision. We also examined the Commission's interpretation of its role and mandate and its strategic and operational planning.

The Canadian Human Rights Commission carries out enquiries into every complaint of discrimination brought to it by Canadians.

Any Canadians, including those shown above celebrating Canada Day, could in the course of their lives be victims of discrimination, or could act in a discriminatory way toward their fellow citizens.

Role and Mandate

11.5 Under the terms of the Act, the mandate of the Canadian Human Rights Commission is to:

- receive and investigate complaints of discrimination;
- obtain a resolution or settlement where discrimination is established; and
- combat discriminatory practices and policies by means of information, public education and research.

11.6 In its 1981 annual report, the Commission stated that it has always defined its role as widely as possible, and that it is "an agency committed to social justice and social change in the broadest sense". The mandate to reduce discrimination and to promote equal opportunity for all is almost unlimited in scope. To assist the Commission in fulfilling its mandate, the Act confers upon it a twofold power of intervention. It has the power to act as an enforcement agent by investigating complaints, conducting a follow-up of settlements, appointing a human rights tribunal, appealing, if necessary, the decisions of a tribunal or filing its own complaint. It also has the power to provide advice and information to organizations and to the public by making available educational programs, instructional materials and research findings.

11.7 The Commission is required to play a reactive role in dealing with individual complaints and, mainly through this process, has developed an expertise in the areas of discrimination affecting large groups. It has not examined discriminatory systems or policies in organizations according to a precise plan and predetermined criteria. However, it has the power to initiate a complaint and to use the means it considers appropriate to discourage and reduce discrimination specified in the Act. For example, the Commission could initiate a complaint relating to an employer's hiring standards if it had reasonable grounds for believing that the employer had discriminated against women or disabled persons. In this regard, the Commission has not determined what grounds and circumstances would prompt it to initiate a complaint, or in what sectors it wishes to prevent discrimination. Consequently, staff were not fully aware to what extent and in what sectors the Commission wishes to take a more active approach.

11.8 In its dealings with employers, unions or employee groups and minority groups, which make up the bulk of its clientele, the Commission has always favoured a persuasive approach. However, according to some studies that it commissioned in 1983 and 1984, the Commission is perceived as being much more coercive than persuasive. It also emerged that these organizations or groups are not aware of all the CHRC services available to them.

11.9 The Commission's twofold mandate results in a dual role. This duality places the Commission in a difficult position. To what extent ought it to act as an enforcement agent, as opposed to an educator? To what extent and in what sectors ought it to adopt an active rather than a reactive approach? While the Commission can identify certain results that it has achieved, it has not so far been able to determine the extent to which its actions have, in fact, helped to reduce discrimination.

11.10 The Human Rights Commission should identify clearly the ways in which its dual mandate is to be fulfilled. This definition should be used to ensure development of appropriate long-term and short-term plans.

> *Commission's response: The Canadian Human Rights Act imposes the requirement to process complaints and, within the authorized budget, this limits the means available to fulfil the mandate for information and education.*

Planning

Strategic Planning

11.11 Given the Commission's broad and somewhat unlimited mandate, strategic planning is essential for the effective development and implementation of its operations. The purpose of strategic planning is to anticipate future risks and opportunities and manage the organization accordingly. It involves analysing the environment to identify trends, opportunities and threats and to determine the impact these are likely to have on the Commission's strategies for achieving results. It includes analysing the organization's strengths and weaknesses, setting objectives, determining the costs and benefits of new or revised policies, and drawing up specific plans.

11.12 In enforcing the Canadian Human Rights Act, the Commission has publicly identified a large number of social changes that it would like to see adopted. These cover a broad range of issues, including abolishing mandatory retirement, introducing voluntary hiring quotas and mandatory affirmative action programs for women and the handicapped, and employee responsibility for safety measures.

11.13 The Commission has not implemented a strategic planning process to reflect senior management's strategy orientation concerning the Commission's evolution. We found no methodology that would enable it to carry out this activity. We found no evidence to indicate that it had examined options such as work on affirmative action, equality for visible minorities, systemic discrimination and so on; considered the potential impact on its resource requirements; or analysed the data relating to the Commission's environment that it needs to support its medium and long-range planning.

11.14 At present, the objectives and priorities that the Commission sets for itself are designed primarily to give short-term direction to its actions. They are not part of a long-range plan to ensure continuity and integration of the actions taken for fulfilling its broad mandate. We found that the complaints processing priorities set in the past three years have focused on three types of complaints: systemic, race and colour, and ethnic origin. However, the Commission has not specified what criteria and factors it has used to select these priorities, or what results it expects to achieve.

11.15 Managers blame the lack of long-term planning on the many pressures from government, changing priorities from within, increasing volume of work, and the shortage of resources. However, strategic planning would enable the staff to overcome some of the difficulties that exist. For example, if the Commission adopted clearer priorities concerning the types of social issues it wants to focus on, it would be in a better position to evaluate the impact on its operations of directions or suggestions from outside bodies. It could also integrate its activities more fully and make better use of its people.

11.16 The Human Rights Commission should develop and implement a strategic planning process and prepare a strategic plan to use for establishing long-term objectives and priorities, for operational planning, for measuring progress and results and for optimizing use of resources.

Commission's response: *A strategic planning process will be developed and used as a basis for long-term and operational planning.*

Medium-term and operational plans are an integral part of existing management systems for measuring progress and results.

Operational Planning

11.17 Our audit of the Commission's operational planning process dealt mainly with the determination, communication and use of annual objectives and priorities to allocate and control resources. Responsibility for operational planning is assigned to the Commission's directors and is given top priority by managers. Annual objectives are clearly defined, quantified as far as possible and discussed internally to ensure co-ordination, particularly between the Commission's functional and operational sectors. The objectives in their final form are used as a basis for quarterly reviews and managers' performance appraisals.

11.18 The operational planning process is implemented satisfactorily in the Commission and managers accord it primary importance. In our opinion, however, this management function, which is essential to the development and effectiveness of the organization, should be exercised within the framework of a defined strategic planning process.

11.19 The operational planning also deals with the management of workload. This is particularly important when there is an annual caseload of over 900 cases to be handled by approximately 35 investigators. At present, the Commission tries to handle complaints on a first come, first served basis. Although this could be a reasonable basis for operations if all complaints were simple and routine, in actual practice many factors must be considered in deciding which complaints to investigate first. The grounds for a complaint, the relationship between the complainant and respondent, their availability, the Commission's priorities and objectives, and past experiences of investigators are some factors that influence the priority assigned to investigations by investigators. We noted the Commission had not developed criteria or guidelines to help assign priorities to ensure that the workload is managed efficiently and all similar cases are handled consistently.

11.20 The Human Rights Commission's annual operational planning exercise should be based on and linked with its strategic plans. The Commission should develop criteria or guidelines to help assign priorities to investigations.

Exhibit 11.1

COMPLAINTS ACCEPTED BY PROVINCES BY GROUNDS

		Race/Colour	National/ Ethnic Origin	Religion	Age	Sex	Marital/ Family Status	Disabilities	Pardon	Retaliation	Total - 1984	1983	1982	1981	1980	Total 1980-84
Newfoundland					1	4	2	6			13	6	3	6	12	40
P.E.I.					1	1		1			3	1	1	4	1	10
Nova Scotia		5			1	7	5	7			25	25	22	29	41	142
New Brunswick		2	2	2	1	1	2	6			16	8	19	15	14	72
Quebec		3	4		6	21	5	26			65	41	72	66	65	309
Ontario		30	16		17	32	8	52		4	159	118	128	176	135	716
Manitoba		5	2	1	2	3	6	13			32	16	30	75	56	209
Saskatchewan		2		2	3	2		10			19	23	22	26	18	108
Alberta		7	2	1	4	16	1	5			36	22	48	19	21	146
British Columbia		4	1		9	14	5	9			42	40	48	58	43	231
Yukon												3	1	1		5
NWT		1			1		2				4	8	2	7	5	26
Others												1	1	4	4	10
Total	1984	59	27	6	46	101	36	135		4	414					
	1983	65	28	5	41	79	20	69		5		312				
	1982	81	32	6	44	102	24	103	3	2			397			
	1981	102	20	13	61	145	33	112						486		
	1980	66	28	9	49	126	42	92	1	2					415	
Total	1980-84	373	135	39	241	553	155	511	4	13						2024

Source: 1984 Annual Report of the Canadian Human Rights Commission

Commission's response: *Operational planning will be linked with strategic planning. Criteria will be developed to direct managers involved in assigning priorities to investigations.*

Management of Complaints and Compliance

Background

11.21 In 1984 the Commission responded to over 31,000 requests for information and accepted 414 formal complaints involving the 10 grounds of discrimination cited in the Act: race, colour, national or ethnic origin, religion, age, sex, marital status, family status, disability (physical or mental) and conviction for which a pardon has been granted. Exhibit 11.1 shows the complaints accepted by the Commission during the years 1980-84 by provinces and by grounds. Individuals may file a complaint when an organization subject to the Act has discriminated against them during hiring, employment or terminating employment or has refused to provide goods, services, facilities or accommodation on the grounds mentioned above. A complaint can also be made for unequal pay for male and female employees and for harassment.

11.22 Complaints received by the CHRC often raise matters that are both unique and controversial. For example, where no threat to safety of the other employees is involved, can an employer require an employee to comply with a safety directive that violates the employee's religious principles? Or what responsibility does an employer have to provide special facilities for employees with disabilities? Because the onus is on the Commission to determine that discrimination is involved, the complaints management process must be sensitive, especially to complaints of race discrimination or harassment. Consistent application of policies, work procedures and specialized tools are required to deal with these sensitive issues.

Description of the Process

11.23 Regional offices respond to complaints submitted to them and carry out investigations. Some complaints with national implications – for example, those relating to equal pay or systemic discrimination (arising from an organization's systems or policies and prejudicial to a class of persons) involve consultations with or are fully handled by headquarters.

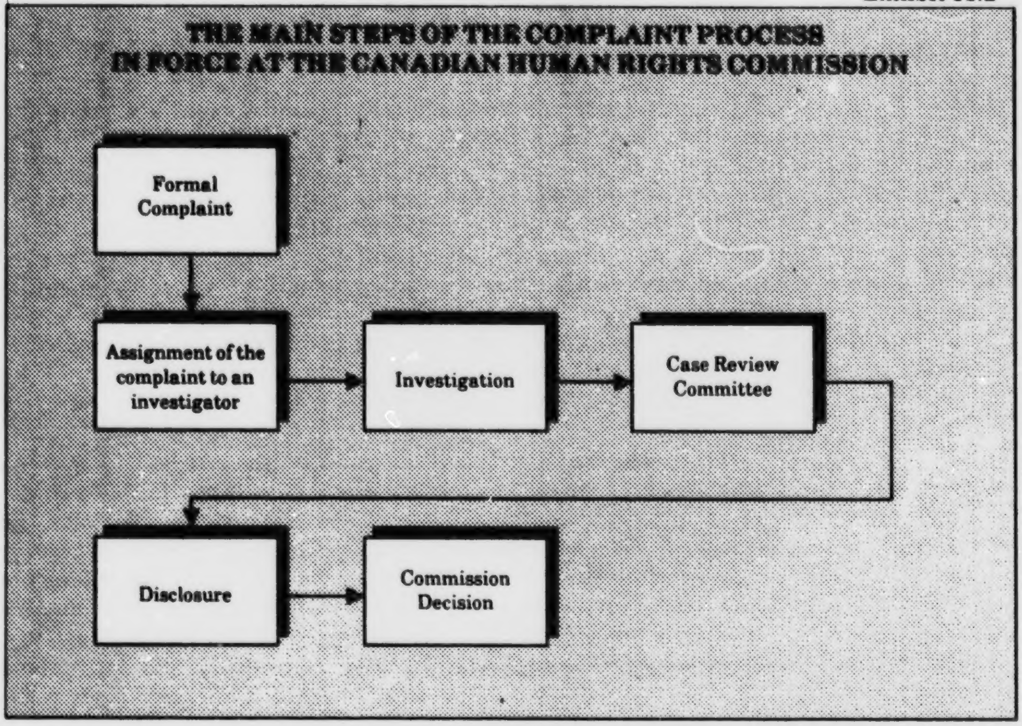
11.24 The complaints submitted to the Commission are dealt with according to the standardized process shown in Exhibit 11.2. Each complaint must go through all stages, unless the complainant decides to withdraw it. Even in that case, a recommendation must be made for decision by the Commission members.

Delays in Investigating Complaints and Increasing Backlog

11.25 The major issue and operational challenge CHRC faces is to reduce the long delays in its investigation of complaints and to bring the backlog of complaints to a reasonable level. Although the Commission has the responsibility for dispensing justice

within a reasonable time, it has so far been unable to do so for a large proportion of its cases because of a variety of environmental and internal reasons that are identified later in this chapter.

Exhibit 11.2



THE MAIN STEPS OF THE COMPLAINT PROCESS IN FORCE AT THE CANADIAN HUMAN RIGHTS COMMISSION

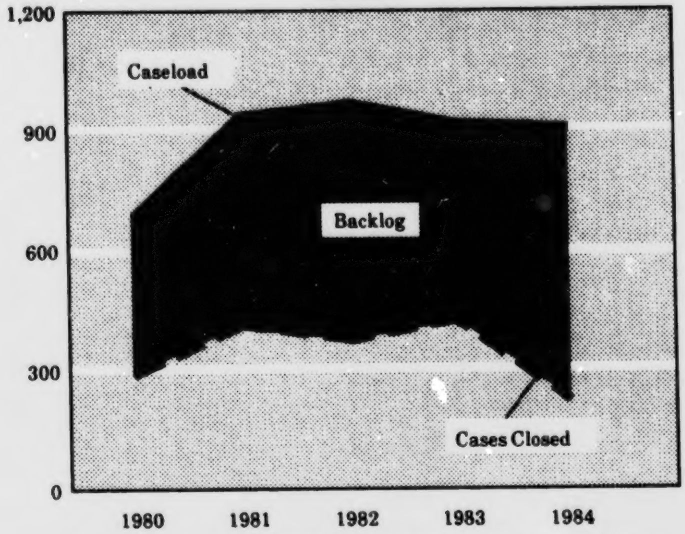
11.26 To illustrate the problem of long delays – an internal study in 1984 showed that 39 per cent of the 2,352 complaints accepted by the Commission to 30 June 1984 had taken over 12 months to reach the Commission members for a decision. Of the total, 21 per cent took over 18 months before the Commission made a decision. The Commission has used a general target of six months to process an average case.

11.27 These delays in handling complaints have a significant impact on the backlog of cases; at 31 December 1984, the backlog was 682. This was 36 per cent higher than 1983 and 12 per cent higher than 1982. Based on the rate at which the Commission has closed cases in the last three years, the backlog represented over two years of work. During the past three years, new complaints accepted have averaged over 350 per year. The impact of cases accepted and cases completed on the backlog is shown in Exhibit 11.3.

11.28 Another development in 1984 was the 45 per cent decline (from 422 in 1983 to 230 in 1984) in cases closed during the year. This decrease was attributed to the increase in workload caused by a July 1983 amendment to the Canadian Human Rights Act, more preliminary investigations, and the disclosure procedures adopted by the Commission whereby the contents of investigation reports are now made available to both parties.

Exhibit 11.3

CANADIAN HUMAN RIGHTS COMMISSION
ANNUAL WORKLOAD AND BACKLOG
1980-84



Caseload: opening backlog plus new cases accepted during the year.
Cases Closed: cases closed by the Commission during the year.
Backlog: all cases not yet closed at the end of the year.

11.29 Despite these factors, some of the causes of excessive backlog and delays in complaint handling are the weaknesses in the management process used by the Commission. The Commission agrees that the delays and backlog are excessive and has identified the need to improve its management processes.

Deficiencies in the Complaints Management Process

11.30 The general framework of the complaints management process is well defined and understood, and all complaints follow this defined process. The major problems, however, relate to lack of clear definition of roles and responsibilities of staff, lack of validated performance and work standards, and inconsistency in approach and practices.

11.31 Roles and responsibilities of staff at headquarters and in the regions, including those of the regional directors and investigators, as well as headquarters specialists, advisers and directors, need to be clearly identified. This deficiency has resulted in problems such as inadequate or late input on the part of specialists, confusion over "ownership" of recommendations in the case reports, friction between regions and headquarters, and low morale. Eventually all these problems affect the work and lead to more delays and more backlog.

11.32 The Commission has not validated its performance and work standards for planning and control and for justifying resources required, or for evaluating work. Although a six-month elapsed time is used as a general target for an average case, the Commission has not defined what would constitute such a case or validated this standard. The Commission estimates that an average investigation takes about 30 hours to complete. However, this length of time could not be substantiated by the Commission. Standards could be developed and validated for time spent and effort expended on routine cases. In the absence of these, investigators use their own varied experience, skill and work habits to carry out their work.

11.33 These standards could be validated by defining an average case, by recording the time required at each step in the process on a sample of cases, and by enforcing more stringently the requirement for accumulating time on each case.

11.34 Lack of formal training programs for new investigators is another factor that contributes to inconsistency in handling cases. Investigators were not sufficiently familiar with the operational guidelines and had developed their own working tools. Investigators were provided only minimum in-house training, and they learned most of their work on the job. This has had a negative impact on handling cases efficiently and economically.

11.35 At the time of our audit, as a result of an internal study, the Commission was in the process of defining the roles and responsibilities of staff and providing training to all investigators. These initiatives are to be implemented during 1985-86.

11.36 **The Human Rights Commission should ensure that the roles and responsibilities of all levels of regional and headquarters staff are defined, agreed upon and communicated.**

> *Commission's response:* *Roles and responsibilities of all levels of regional and headquarters staff were defined in November 1984. They are now being operationalized and are being communicated and refined through directives, manuals and formal training.*

11.37 **The Human Rights Commission should further develop and validate appropriate performance and work standards that can be used for allocating resources and for monitoring performance.**

> *Commission's response:* *Performance and work standards have been used by managers to allocate resources and to monitor performance. These are being further developed and validated.*

Lack of Methodology and Work Tools

11.38 The Commission's major activity since its establishment in 1978 has been complaints investigations. It has received over 2,600 formal complaints. It has not, however, implemented a standard methodology and required the use of work tools to assist investigators in conducting their investigations. Methodology and work tools can be used to help ensure that certain standards and discipline are applied and that the quality of working files and reports is enhanced.

11.39 The Commission has issued various operational directives and policies that provide only general guidelines. They do not encompass all important aspects of the Commission's work, nor are they kept up to date. Therefore, the direction and guidance required by investigators is not readily available.

11.40 In most of the case files we examined, there were no pre-investigation or investigation plans, although these are recognized by the managers as being useful. Instructions to help investigators clarify complainants' allegations were also not available. This sometimes resulted in the wrong allegations being pursued or the wrong questions being addressed, leading to waste and inefficiency.

11.41 The Commission has not established any standards for the quantity and quality of documentation and evidence required for case investigations, organizing the case files, time recording, or supervisory challenges and reviews. Further, it has not fully explored the possibility of developing and using form letters and notes for use in seeking routine information and follow-up.

11.42 **The Commission should ensure that operational directives and policies encompassing all important areas of its operations are prepared and kept up to date. The Commission should also implement standard methodology and require the use of its work tools in investigating complaints.**

> *Commission's response:* *A system of manuals encompassing all policies and operational directives has been developed. Manuals were issued to staff in June 1985 and will be regularly updated. It is a requirement that Commission work tools and standard methodology be used in investigating complaints. Standard methodology and work tools are described in the system of manuals.*

Quality Control

11.43 Regional directors are responsible for the quality of work done in the regions. Their participation and input are reasonable in the initial identification of the complaint and in the reporting phase; however, during the investigation, their monitoring and control is haphazard and inconsistent.

11.44 The Complaints and Compliance Branch at headquarters is responsible for quality control with respect to complaints. This consists of a review of all investigation reports prepared by investigators. This is done by a review committee composed of various CHRC specialists, and includes people involved in legal work, policy, and national investigation. The Committee studies the quality of work in terms of consistency and type of evidence collected, the quality of the analysis conducted and the basis of the recommendations to be submitted to the Commission members. This is an after-the-fact review, and the Commission has not clearly established its quality standards and communicated these to the investigators. Since the criteria used by the managers and investigators for conducting investigations vary, the quality of the work carried out is inconsistent. Moreover, owing to the lack of a clear division of responsibilities between the Director, Complaints and Compliance at headquarters (who ensures quality control), and the regional directors (who oversee investigations), quality control has given rise to misunderstandings among those involved. For example, investigations that have been completed for presentation to the Commission members by the regions are stopped at headquarters for further work or policy decisions. This has resulted in bottlenecks at headquarters, adding to delays and leading to friction and loss of morale.

11.45 The Human Rights Commission should clearly define the responsibilities of regional and headquarters staff for supervisory review and quality of work. It should also establish quality standards and communicate these to the investigators.

> *Commission's response:* *The responsibilities of regional and headquarters staff for supervisory review and quality of work were being defined at the time of the audit. These were completed and communicated to staff in June 1985. Quality standards are being developed and will be communicated to staff through training and included in the manual system.*

Management Information

11.46 The Commission does not have enough reliable and accurate operational information to plan and control its activities properly. For example, timely and accurate information that managers need to analyse complaints, in terms of numbers, complexity, newness and time required to deal with them, was not readily available. This is one of the main reasons the Commission does not know the composition of its entire caseload and is unable to take corrective action.

11.47 Managers in the regions and at headquarters need information on the status of active cases, including key dates for completion of major steps and tentative deadlines by which reports have to be prepared. They also need information on the handling and disposition of similar cases. We did not find an adequate system in the regions or headquarters that provided this information. Furthermore, monthly reports prepared by the regional directors provide minimum information for operational control purposes. For example, these reports do not contain information on important operational outputs such as the number of pre-investigations and informal complaints dealt with by the Commission. The computerized management information system does not provide the required information and the data are also unreliable and inaccurate.

11.48 Starting on 1 January 1985, the Commission initiated a monthly reporting system that will update the status of each of the 682 cases that were open at 31 December 1984 and indicate the date on which investigation reports would be submitted to headquarters. When it is fully functional, this system should be useful for managerial control purposes.

11.49 Another of the Commission's important information requirements is the amount of time taken by the investigators on each case. At present, such records on individual files are either not maintained or, if they are maintained, the time recorded is inaccurate and unreliable. In over 50 per cent of the files audited, no time record had been maintained, and in some other files, the time had been estimated only at the completion of the investigation.

11.50 The Human Rights Commission should review existing management reports for relevance and usefulness, and it should continue to develop appropriate management information systems to aid managers.

> *Commission's response:* *Some management reports have already been revised and further changes will be made. Management information systems are being reviewed, revised and refined on an ongoing basis.*

Need for Analysis of the Nature and Cause of Delays

11.51 Although the Commission recognizes that corrective actions are needed to reduce delays and now has the reduction of delays as an objective, it has not conducted an in-depth analysis of the cases to identify the nature and causes of delays. It does not therefore know the degree to which they are caused by internal factors within its control or by external factors where its influence is limited. Such an analysis would help the Commission to identify those delays that it can take steps to reduce.

11.52 To understand the nature of delays, we examined 81 cases where long delays in processing were observed. These represented about 12 per cent of the active cases of the Commission. Most of these had taken over 18 months to complete or were still active 18 months after the date of acceptance. The average elapsed time for these 81 cases was 27.3 months. Included in these were 25 special cases that were in abeyance pending a court or a tribunal decision. These had an average elapsed time of 38.3 months. We analysed the other 56 cases, most of which were still in process and had not gone through all the steps, and found that, on average, it took up to four months to assign them to an investigator, 19 months for investigation, 3 months for case analysis and report preparation, and 1.5 months for disclosure to complainants and respondents.

11.53 We further analysed the delays in the investigation phase and noted that the reasons for them included workload of investigators, change in investigators, failure of the respondent to supply information promptly, lack of follow-up by investigators and periodic unavailability of the complainant. We also noted delays in the Systemic Discrimination Unit at headquarters, the Complaints and Compliance Branch and in the Case Review Committee. The analysis we conducted was to enable us to identify the main causes of delays in investigations. These were discussed with Commission staff, who recognize that they need information to identify and implement corrective actions. They expect the new reporting systems to generate such data.

11.54 The Human Rights Commission should carry out an ongoing analysis of its cases to identify the nature and underlying causes of delays in investigations.

> *__Commission's response:__ Regular reviews are part of complaints processing. Changes made to the automated tracking system in April 1985 now provide information on the scheduling and progress of complaints. This information will receive even greater attention from managers in the future.*

DEPARTMENT OF REGIONAL INDUSTRIAL EXPANSION

DEPARTMENT OF REGIONAL INDUSTRIAL EXPANSION

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12

DEPARTMENT OF REGIONAL INDUSTRIAL EXPANSION

Background

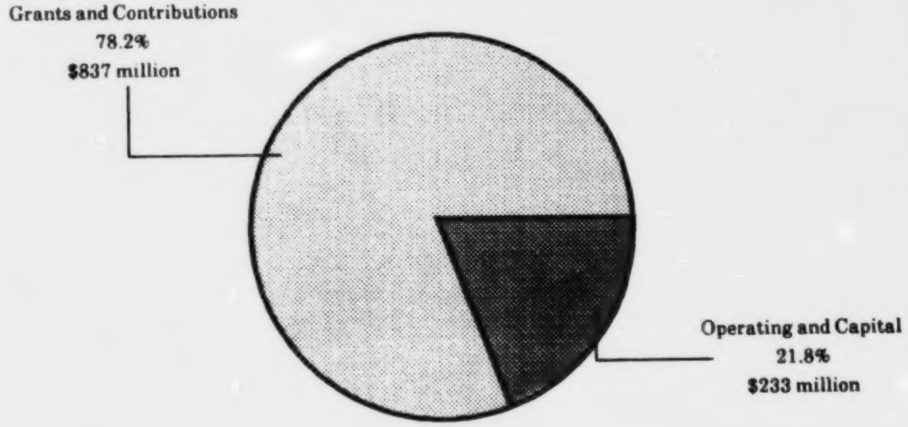
12.1 The Department of Regional Industrial Expansion (DRIE) was created in December 1983 from the merger of the former Departments of Industry, Trade and Commerce (ITC) and Regional Economic Expansion (DREE).

12.2 DRIE's basic objective is to increase overall industrial, commercial and tourism activity in all parts of Canada and, in the process, reduce economic disparity across the country. The Department pursues this objective through direct financial assistance programs and other functions involving non-financial assistance as shown in Exhibit 12.1. In 1984-85, DRIE's expenditures were expected to total $1,070 million, with expenditures on assistance programs amounting to $837 million, or roughly 78.2 per cent of the total. Under these programs, financial assistance is provided through a range of mechanisms, including contributions, grants, loans and loan guarantees.

Exhibit 12.1

DEPARTMENT OF REGIONAL INDUSTRIAL EXPANSION
FORECAST EXPENDITURES BY TYPE
1984-85

(Total: $1,070 million)



12.3 DRIE's non-financial assistance functions include policy development, technology transfer, and analysis and dissemination of economic and commercial information. The Department also assists industry by identifying development opportunities and markets and promoting economic benefits from major government procurements and Crown-sponsored projects.

12.4 When the Ministry of State for Economic and Regional Development was disbanded in July 1984, its Regional and Project Co-ordination Branch and Federal Economic Development Co-ordinators were transferred to DRIE to form the Regional Development Branch.

12.5 DRIE headquarters' organization is based on industry sectors, regional development and corporate support. The Department is extensively decentralized, with regional offices in each province. In terms of assistance programs, roughly 67 per cent or $556.8 million of expenditures originated with requests received in regional offices in 1984-85.

Audit Scope

12.6 Our audit focused on the delivery of DRIE's main direct assistance programs. Assistance under these programs includes grants, contributions, loans, loan guarantees and duty remission. We examined the:

Industrial and Regional Development Program (IRDP);

Defence Industry Productivity Program (DIPP);

Canadian Industrial Renewal Board (CIRB);

Federal-Provincial Subsidiary Agreements;

Shipbuilding Industry Assistance Program (SIAP);

Small Businesses Loans Act Guarantees (SBLA); and

Machinery Program.

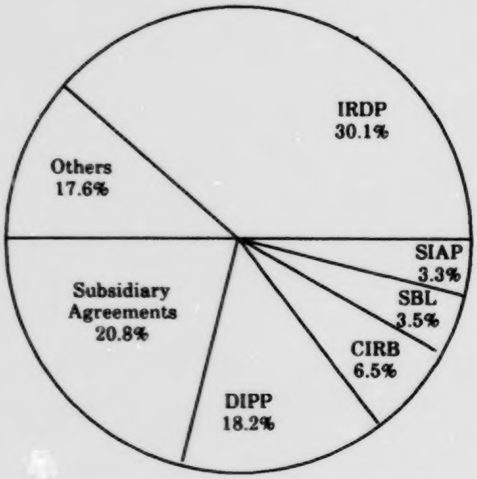
12.7 As shown in Exhibit 12.2, the first six of these accounted for approximately 82.4 per cent of DRIE's grants and contributions in 1984-85. We did not look at the Native Economic Development Program or the Western Transportation Industrial Development Program because they were just getting under way at the time of our audit and relatively few commitments or expenditures had been made.

12.8 We examined whether project approval decisions were consistent with governing legislation, regulations, objectives, internal directives and statements of program intent. We also examined the corporate activities that support DRIE's direct assistance programs, such as internal audit and program evaluation, and the role played by sector branches in reviewing project proposals.

Exhibit 12.2

GRANTS AND CONTRIBUTIONS - DIRECT ASSISTANCE PROGRAMS
FORECAST EXPENDITURES BY PROGRAM
1984 - 85

(Total: $837 million)



12.9 In 1982, we examined and reported on the industry development programs of the former ITC Department. The Department committed itself to action in a number of program areas as a result of our observations. With the exception of the Enterprise Development Program of ITC, all the programs we reported on continue to exist in DRIE. For these programs, we reviewed the extent to which action has been taken in the intervening three years.

Observations and Recommendations

Corporate Direction and Control

12.10 Much of the major reorganization activity involved in creating DRIE was being completed at the time of our audit. In addition to the difficulties of merging ITC and DREE, the reorganization involved transferring considerable program activity, and personnel, from headquarters to regional offices. The Department faced these changes and disruptions at the same time as it was launching the new Industrial and Regional Development Program (IRDP). It had to put in place the systems and controls needed to administer this program and others that continued in the new organization, and relocate and train staff during a difficult transition period.

12.11 Most of DRIE's assistance programs are highly discretionary. The Minister has wide authority to approve or reject specific projects under these programs. Much of this authority has been delegated to departmental staff, with the Minister retaining the authority to decide on larger cases. The discretionary nature of DRIE's programs and the impact that particular projects can have on a community or company place the Department under considerable pressure and scrutiny not only from the applicant but from other interested parties, including elected members of all levels of government.

12.12 DRIE's largest industrial support programs call for projects to meet the basic criteria of need for Crown assistance and significant contribution to the economic or social benefit of Canada. These criteria, which are key to the success of the Department's assistance programs, have not yet been translated into operational terms that are sufficiently specific to guide decision making on individual projects.

12.13 The criterion of need for Crown assistance is perhaps the most difficult issue with which DRIE has to deal in assessing projects, and it requires considerable judgement and skill. Because it is so important, we believe the Department should have developed general guidelines for its application. For example, we would have expected the Department to set out in a general way the circumstances under which the projected return on investment without assistance was high enough that a lower level of DRIE funding, or no funding at all, was required for a project to proceed. We would also have expected a definition of what constitutes prior commitment by an applicant to proceed with a project without DRIE support.

12.14 In our 1982 audit of the Enterprise Development Program of the former ITC Department, we noted the absence of guidelines defining what was meant by "economic benefit to Canada". At that time, the Department indicated that this issue would be addressed in the new program under development following the merger of ITC and DREE. However, the new Industrial and Regional Development Program was launched without these guidelines being finalized and implemented. As a result, we observed that projects were funded where evidence of the need for DRIE assistance was questionable, and that the statements of expected benefits were often increased beyond a level that was supported in file documentation.

12.15 DRIE's programs are highly decentralized. Under the Industrial and Regional Development Program, regional offices are authorized to approve projects involving up to $100,000 in Crown support. At the time of our audit, regional offices could also approve projects under most federal-provincial subsidiary agreements without reference to a specific dollar limit. This helps provide rapid and regionally responsive delivery. However, for a Department with such a decentralized organization to function cohesively, corporate management must have timely and accurate information on regional programs and appropriate procedures for guiding and monitoring regional activities.

12.16 We observed problems in these key areas of corporate control. For the Industrial and Regional Development Program, there was little or no corporate monitoring of projects approved by regional offices or of the procedures followed by regions in making recommendations on projects beyond their delegated approval authority. In about half the projects we reviewed, we had observations on matters such as project eligibility, statement of expected benefits, prior commitment, or information for decision making by management.

We observed inconsistencies among regions in how the program was being delivered, and areas where statements of program policy were required. Also, in over half the projects we examined, there were serious errors in the data in the department-wide IRDP information system. Although relatively few IRDP projects were processed by headquarters staff, we observed many of the same problems at headquarters as we found in the regions.

12.17 Similarly, there was little headquarters review of projects under the federal-provincial subsidiary agreements, although expenditures under these agreements amounted to $174.1 million in 1984-85. Several projects, in our opinion, were not consistent with the objectives or intent of the program under which they were approved. Information to headquarters was largely on expenditures and commitments and not on the nature of the projects supported or on the results achieved.

12.18 The focus on obtaining approval for particular projects and the absence of review also led to instances where we observed that the information to senior management, the Minister or, at times, to Treasury Board was inaccurate, incomplete, or not consistent with the information in project files. This occurred in projects involving the Industrial and Regional Development Program, subsidiary agreements, and the Canadian Industrial Renewal Board.

12.19 Regional flexibility and substantial delegation of authority are essential if DRIE is to deliver regionally responsive programs effectively. However, in a Department as decentralized as DRIE, a balance must be struck between this need and the equally legitimate need for corporate guidelines and controls to ensure consistency in program delivery across the country and compliance with program legislation and directives. In our view, the extent of regional autonomy and lack of provision for corporate information and project review meant that this balance was not present. This undoubtedly contributed to many of the problems we noted.

A Statement From DRIE

With its decentralized structure of regional offices in each province and delegation of authority which allows most cases to be fully processed locally, DRIE management recognizes the need for policies, guidelines, and procedures to enable consistency as well as efficiency in the delivery of IRDP. This is why all officers involved in the program delivery have been provided with a comprehensive "Policy and Administrative Directive" manual. However, DRIE also recognizes that policies and guidelines are no substitute for sound judgement and that a balance between rigid rules and the use of discretion must exist to deal with the wide variety of circumstances inherent in investment projects. Furthermore, it should be recognized that IRDP was designed to be a flexible program to ensure its relevance and sensitivity to the diverse regions of Canada.

Although considerable attention has been given to the various management principles governing program operations, DRIE is also committed to implement improvements to strengthen management control.

Particular attention is now being directed to decision-making on specific projects and on-going evaluation, audit and monitoring. To this end, the Department is in the process of creating corporate accountability centres for the planning, development and monitoring of program operations.

Rigorous attention will be paid to the program management process; to the standards of design and the process of development for new, reduced or rationalized programs and agreements. The Department's capacity for the review, monitoring and assessment of programs will be substantially increased.

Industrial and Regional Development Program

12.20 Under the Industrial and Regional Development Program, DRIE can provide direct assistance to manufacturing, processing and designated service industries in all parts of Canada. The assistance may take the form of grants, contributions, repayable contributions, loans and loan guarantees. The most common forms of assistance are contributions and repayable contributions. Forecast expenditures in 1984-85 for IRDP were approximately $252.4 million. From the program's start in July 1983 to 31 March 1985, 1,845 projects were accepted, representing a total commitment of $500 million.

12.21 To encourage industrial activity and reduce disparity between economically disadvantaged regions and the rest of the country, increased levels of assistance are available in such regions. They are identified by means of a Development Index which sorts 260 of Canada's census divisions into four tier groups based on a formula using indicators of employment, income and provincial fiscal capacity. Projects in Tier I, which covers 50 per cent of the population, are eligible for a basic level of assistance; projects in Tiers II to IV can receive progressively greater levels of assistance.

12.22 IRDP is a decentralized program delivered through DRIE's 10 regional offices, which can approve projects involving DRIE support of up to $100,000. Approximately 72 per cent of IRDP projects fall into this category. For projects between $100,000 and $500,000, the Minister reviews and exercises a right of veto on all DRIE staff decisions. Until September 1984, the Minister decided on all cases involving a request for DRIE assistance greater than $500,000, including those where rejection had been recommended. Since that time, decision authority for projects between $100,000 and $1 million in DRIE support has been delegated to the Minister of State for Small Business. All contribution projects of $1 million or more are reviewed by an internal DRIE board at headquarters, which advises the Minister.

12.23 The Industrial and Regional Development Act contains general criteria relating to project eligibility and the need for DRIE assistance. It also requires that a project make a significant contribution to the social or economic benefit of Canada. The IRD Regulations include the requirement that a project be commercially viable within reasonable bounds of risk, and that there must have been no commitment by the applicant to carry out the project prior to an application being made. The Regulations also require that the assistance provided be the minimum amount necessary to permit successful completion of the project.

12.24 The program's introduction in July 1983 was made more difficult by public announcements that stressed its flexibility and generous funding levels. The Department was flooded with applications; many were incomplete and many proved to be ineligible. At the same time, DRIE was establishing new procedures for assessing and approving cases, training staff, and implementing new management information systems across 10 regions.

12.25 Our audit focused on how the Department manages the IRDP. We examined a representative sample of 224 projects taken from all DRIE regions, including both rejections and approvals. It contained 167 approved projects – 11.5 per cent of the number and 30.8 per cent of the dollar value of approvals at the time we selected the sample of projects.

12.26 Our observations are based on projects from the first 16 months of this highly visible new program. Some of the problems we found could be expected in any new program; some involved areas where policy or procedures needed to be developed or strengthened; and others involved some fundamental issues relating to how the program was being administered and controlled.

12.27 Major amendments were made in November 1984, eliminating two elements of the program, revising or restricting eligibility in others, and establishing new maximum levels of assistance. Also, projects recommended for support up to $100,000 became automatically eligible for the new maximum levels of assistance.

Policy Direction

12.28 When the program was launched, policy advice and interpretation were provided by the Program Development and Operations Branch at headquarters which developed the IRDP Administrative and Policy Directive and operated a "hot line" service for regional staff. However, in April 1984, DRIE decided that headquarters was to be consulted on questions of interpretation only at the request of a Regional Executive Director. The intent was to encourage the regions to become more familiar with the program rather than to rely on headquarters.

12.29 A Program Policy Management Committee, with a representative from each region, was established in July 1983 and meets approximately every two months. Its purpose is not to make decisions but to encourage an exchange of views and discussion of issues in program delivery.

12.30 In each of these groups, the Department had a core of expertise in IRDP policy and program delivery. However, neither group was clearly responsible for identifying and resolving questions of policy interpretation and there was no central review for compliance with established policies and procedures. This contributed to inconsistencies in program delivery among regions and a need for greater policy direction. The following are examples of some areas where such direction is needed.

12.31 **Dividend restriction clauses.** Some regions use these, although not consistently, to ensure that DRIE assistance does not flow through the company to the owners, shareholders or parent company in the form of higher than normal dividend payments.

12.32 We noted six instances where such a clause would have been appropriate or at the very least should have been considered. These involved projects in which the Department had approved contributions where information on file showed that substantial dividends, including amounts greater than the requested DRIE funding, had been withdrawn just before or just after obtaining DRIE support. The project files also did not address why government assistance was needed in these cases.

12.33 **Commercial viability.** The Regulations require that projects be commercially viable to be funded, and that activities be financially self-sustaining. In some regions, this is interpreted in such a way that projects or activities that require and receive public funding from other sources on a regular basis can nonetheless be considered as commercially viable or financially self-sustaining, and therefore eligible for assistance. In other regions, regular receipt of public funding is considered to indicate that this requirement of the Regulations has not been met.

12.34 **Previous assistance.** Several projects involved requests for assistance to rebuild, expand, or modernize assets that had previously been assisted by DREE or ITC. Under a predecessor DREE program, projects involving the modernization of assets previously funded by DREE were not eligible for further funding. IRDP does not have a similar restriction. As a result, it is possible that the program will be regarded as a continuing source of financing. We recognize that this may be necessary in some more economically disadvantaged regions; however, in our opinion there should be a review of the issue of further assistance where assets have previously been funded by DREE or ITC.

12.35 **Treatment of subsidiaries.** Subsidiaries and divisions of larger companies frequently request DRIE assistance to raise the expected rate of return on a project to the parent company's threshold level. This is the rate of return the parent company states it must obtain to go ahead with a project. However, file documentation usually did not include the rates of return referred to by applicants or an assessment of them for reasonableness against industry standards.

12.36 **Seasonal job creation.** In our view, there needs to be policy direction in relation to the costs and benefits of seasonal job creation, which may give temporary employment to individuals who receive unemployment insurance. Current practice in some instances is to include as a benefit the temporary reduction in unemployment insurance payments but not to include the costs of future payments that may have to be made when the seasonal job ends. For new seasonal jobs, the cost of continuing expenditures by the federal government for any future unemployment insurance payments is not calculated. These expenditures should be included in the Department's cost-per-job calculation if the Department is to treat unemployment insurance benefits and costs in an even manner.

12.37 The Department should re-establish a corporate group with the mandate of providing advice on policy and interpretation of Regulations and directives. To ensure a consistent approach to program delivery, regions should be canvassed systematically to identify issues where corporate advice is required.

> *DRIE's response: Line managers are responsible and held accountable for interpretation of regulations and directives in the delivery of the program. Program Development and Operations (PDO) Branch and the Program Policy Managers' Committee (PPMC) provide advice upon request of line managers. Without interfering with lines of responsibility, support systems to assist line managers will be strengthened and formalized, e.g., the "hot line" will be reinstituted, the PPMC mandate will be formalized and their interpretations promulgated, etc.*
>
> *PDO will establish a quality control function for cases submitted to headquarters for approval to monitor inconsistencies of interpretation and take remedial action.*

Development Index

12.38 We recalculated the assignment of census divisions to tiers by the Development Index according to the formula in the Regulations. We found no discrepancies.

12.39 The Department was fully aware of problems associated with this Index, such as the reliability of data for small geographic areas and the absence of indicators of industrial disparity. However, it was working toward improving the Index over the longer term as data availability improves.

Project Eligibility

12.40 Project eligibility is described in the Act, Regulations, and internal DRIE directives. In our opinion, questions of eligibility should have been addressed before the project was approved, but were not, in 15 of the 167 approved projects we examined. Where this happened, it appeared to reflect the fact that there was a desire to find some way to fund the project. IRDP was seen as the Department's main assistance tool regardless of how well the project fit the legislation, Regulations or directives.

12.41 The following are examples of cases where, in our opinion, there were questions concerning eligibility, but there was no indication on file of why the projects were considered to be eligible.

- A contribution of $2.4 million was approved toward total capital costs of $4.8 million for an expansion of services by an existing non-profit organization. It was approved under a section of the Regulations that permits assistance for establishing a centre or institution, not for expanding it. The section that permits assistance for expansion of services by existing institutions allows DRIE to support operating costs only, not capital costs. There was no analysis indicating how the organization would become self-sustaining in the future. It had received other public assistance annually and would continue to do so for at least the next three years.

- A contribution of $17,780 was given to a Chamber of Commerce for expansion of its building, although it was not eligible under the expansion element because it was not a commercial operation as described in the Regulations. Also, the original application indicated that the total project costs would be $40,400, which was below the $50,000 threshold for an IRDP expansion project in Tier I. The applicant subsequently increased the project costs to $50,800, but the reason for this increase was not documented.

- A land developer received a contribution of approximately $60,000 for a golf course based on its tourism potential. Departmental tourism policy required that a tourism project assisted by IRDP be "clearly targeted toward attracting the international/interprovincial visitor and tourist". However, file documentation on this project described it as assistance to "a land developer for a key aspect of a cottage subdivision". The golf club was for day visitors and cottage residents, some of whom were to receive membership with the purchase of a cottage. In addition, a club manager had been hired and an advertisement for the club appeared before the project was approved.

12.42 Only projects eligible under the legislation, Regulations or internal directives should be funded. Where project eligibility is uncertain, headquarters guidance should be obtained, documented and referred to in project approvals. The Department should establish a system for the headquarters review of approved projects for compliance with program legislation, Regulations and directives.

> *DRIE's response: An operations review function at headquarters is being established and should be operational by October 1985. However, a balance between central review and advice and regional responsibility and accountability must be respected in the process.*

Economic or Social Benefit and Need for Assistance

12.43 The IRD Act states that a project must make a significant contribution to the economic or social benefit of Canada. These terms have not been further defined, although in response to an observation in our 1982 Report on the audit of ITC's Enterprise Development Program, DRIE committed itself to addressing this issue. We observed a systematic tendency to increase the statement of benefits expected from a project to encourage support for the project. This upward pressure on the statements of benefits usually took the form of increasing the number of jobs to be created or maintained from the project, or attributing to the project sales estimates that included sales from other projects or other company operations. Differences between the benefits estimated by the applicant and by DRIE were often not documented on file.

12.44 Examples where statements of benefits were increased beyond what was supported on file include:

- A repayable contribution of approximately $690,000 to help an applicant restructure and purchase a second company was credited with creating estimated sales of $12.5 million in the first year; however, this included $6 million in sales from the applicant's existing company.

- In two cases involving contributions toward marketing assistance for conferences, unsupported benefits were claimed. In one case, a $12,000 contribution for an already scheduled five-day conference of medical specialists was credited with generating $1.8 million in expenditures. In the other case, a $40,000 contribution toward marketing a three-day conference on making cities in winter climates more liveable was credited with creating 450 full-time jobs and generating $450 million in sales.

- A modernization/expansion project involved approximately $90,000 in DRIE support; the statement of benefits included 56 new jobs. However, the project file indicated that these jobs were not directly related to the project. Any increase in jobs would result from an anticipated general increase in business rather than from this project. Other documents on file showed that the company's work force would likely be reduced by one because of modernization.

- In another case, an applicant had two projects under consideration. The combined benefits of the two projects were attributed to each, resulting in a double count of benefits.

12.45 The Department should ensure that expected benefits credited to IRDP assistance are supported by file documentation and relate only to the assisted project.

__DRIE's response__: A review of benefits and their documentation will be included in the quality control function.

12.46 The Act requires that no assistance be given if it is likely that a project will go ahead without assistance within the same location, scope and timing. The Regulations add that no project cost is eligible if the applicant entered into a legal commitment in respect of that cost prior to the date the application was received. Assessing whether a project meets these criteria requires considerable judgement. It is rarely clear how the scope or timing of a project may be affected by government assistance, or what actions by the applicant constitute a prior commitment.

12.47 Guidelines on how these key criteria should be interpreted and applied in analysing project proposals have not been developed. We observed that several projects were funded despite indications that the applicant would have proceeded without assistance, or would have obtained a rate of return on investment without assistance such that the need for public support was questionable. There was little analysis or documentation on file to support why government funding was necessary for these projects.

12.48 We noted projects that were financially supported by the Department despite analysis that indicated high rates of return on investment – up to 80 per cent a year in one case – without government assistance, or where file documentation indicated that the company had the funds to undertake the project. The Department also supported two projects where cost savings to the applicants within one or two years were greater than the cost of the projects; however, in these instances the need for public funds to support projects that made such good business sense was not addressed.

12.49 We noted two additional cases, involving a total of approximately $237,000, where the documentation on file indicated that the applicant had proceeded without assistance. In approving one of these, which was already almost completed, the DRIE regional office waived the stipulation in section 8(a) of the IRD Act that no assistance can be given to a project if it would have been carried out without assistance. However, no one has the authority to waive this section of the act. In the second case, documentation at the regional level recommended waiving section 8(a) but the documentation that went to the Minister was silent on both this and the fact that the project was 70 per cent to 80 per cent completed.

12.50 A related issue is the level of assistance that should be provided, once the decision to support is made. Only very general guidelines have been developed to assist in determining how much assistance is required. As a result, few files contained an explicit link between the level provided and the applicant's need. In some cases, the amount of assistance was determined by factors other than need. These included cases where assistance was greater than the amount analysis indicated was needed in order to make it comparable to the amount given to another company, or to reflect a historical funding level. In one project, this amounted to $1.3 million more than an internal DRIE analysis showed the company needed.

12.51 We observed a few cases where the level of assistance was reduced from the amount requested to just under $100,000, which was the maximum amount that could be granted under regional authority. In three of these, documentation on file indicated that the level of assistance was established at just under the level requiring a higher approval authority.

12.52 **The Department should strengthen and document its guidelines for applying sections of legislation, Regulations or program directives relating to:**

- **the need for Crown support for a project to proceed;**
- **the level of support to be provided; and**
- **significant contribution to the economic or social benefit of Canada.**

DRIE's response: The criteria of incrementality and economic benefit required by the IRD Act are not subject to calculation by formula. Based upon the analysis of each application, a reasonable determination of incrementality and economic benefit (as well as commercial viability and prior commitment) is made for each case by the delegated approval authority. More formalized procedures will be established to ensure that the factors considered are more consistently applied and better documented in the project files.

Information for Decision Making

12.53 Because many IRDP projects went to the Minister either for approval or right of veto, we compared documentation presented to the Minister with the project file. In most cases, it was complete and in accordance with the project file; however, we noted seven cases where the information presented to senior management or the Minister was inaccurate, incomplete or not consistent with what was on file. These were in addition to the projects where the statement of benefits had been increased from what was supported on file. The following are some examples:

- In a project involving a contribution of $403,000 toward expansion of a ski resort, the Minister's fact sheet cited 85 jobs created and 300 jobs maintained. Because this project involved seasonal rather than full-time jobs, the seasonal jobs should have been converted to an annual basis. In addition, the project file indicated that the 300 jobs were being extended for five to six weeks, and not that they would be in jeopardy if the project did not go ahead.

- A regional project approval document indicated that an approved sawmill establishment project would create 7.5 jobs. The Department's management information system showed 15 jobs for the project. The Minister's fact sheet showed that 28 jobs would be created.

- The fact sheet on an innovation project involving approximately $190,000 in DRIE support indicated that the project would have no direct impact on the applicant's competitors. However, other regional approval documents indicated that there would be a detrimental effect on companies manufacturing competing products that would become obsolete.

12.54 While the desire to have projects proposals accepted is understandable, the presentation of information in a clear, accurate and complete manner should not be compromised.

Repayable Contributions

12.55 The IRD Regulations state that assistance must take the form of repayable contributions in certain situations. In others, repayable contributions may be offered at the discretion of the Department. We observed that some regions used repayable contributions regularly; others did so infrequently. In some cases repayable contributions should have been considered but were not. A reason often given by staff for rejecting this type of assistance was that the administrative burden was too great. However, there was no analysis of administrative costs to support this claim.

12.56 A revision to the IRDP in November 1984 removed the requirement to use or consider the option of a repayable contribution for projects involving less than $100,000 in DRIE assistance. Although this simplifies the administration of the program, in our opinion it does not remove the need for a more consistent application of this form of assistance for larger projects.

12.57 The Department should develop more specific guidelines on the use of repayable contributions for projects involving more than $100,000 in DRIE assistance.

> DRIE's response: *The question of guidelines for repayable contributions will again be reviewed.*

Management Information Systems

12.58 IRDP is supported by two computerized management information systems with a corporate data base that contains detailed information on IRDP projects. These systems were implemented in the relatively short time of less than a year, and development work on them is continuing.

12.59 We compared the data recorded in the Program Resource Information System for Management with the information in each project file we examined. We also verified whether forecast cash flow patterns in the Resource Allocation Management System were accurate. There were errors in the data recorded in nearly all the approved projects. About half of these were serious errors, for example the amount of assistance or jobs created. The extent of these was such that the overall usefulness of the system to management was impaired.

12.60 Some of the problems were due to difficulties with the definitions of what should be entered into certain data fields. Others were due to errors in original data input or poor procedures for verifying and updating the many data requirements of the system. In most regions, a copy of the information system printout for a project was not on the project file. This meant that errors could not be spotted and corrected by case officers. However, the basic problem appeared to be that responsibility for the quality of information in the systems was not clearly identified, and individual project officers did not have to use this information in analysing projects. At the end of our audit, action was under way in the regions to correct the most serious problems we noted, and definitions were being clarified.

12.61 The Department should clarify responsibility for the quality of data in its information systems and should review the need for all the existing data required by the system. It should also establish procedures to ensure that the data are accurate and updated as appropriate. A comparison of system data with project file data should be included as part of internal audit activities.

> DRIE's response: *The Regional Executive Directors and other responsibility centre managers delivering IRDP are responsible for the quality of data. The procedures will be developed by each responsibility centre under the functional direction of headquarters. The data elements are currently undergoing a review.*

Sector Branch Consultation

12.62 Under the IRDP Administrative and Policy Directive, consultation with sector branches in headquarters is mandatory for projects involving more than $250,000 in DRIE support, although responsibility for processing and recommending support or rejection rests with the regional offices. This consultation requirement was complied with.

12.63 In projects where sector branch advice was recorded on approval documents, we examined whether the approval documents accurately and completely reflected the advice provided. In five cases, concerns expressed by the sector branch were not adequately reflected in the project documentation. In another seven cases, decisions at the regional level were made prior to the receipt of formal sector branch support.

12.64 The advice was sometimes ambiguous, indicating support and then identifying serious problems related to the project. For one project, involving $3.8 million in DRIE support, the sector branch indicated both that the company had adequate resources to implement the project without IRDP assistance and that the company should be supported because a similar project, in a different company, had been supported by a different DRIE program.

Letter of Offer

12.65 A formal letter of offer is sent out for each accepted project. It contains critical information relating to costs eligible for assistance, percentage of DRIE support, payment procedures, commercial production date, monitoring requirements, description of the project, repayment clauses, equity requirements and other clauses considered appropriate under the circumstances. When signed by the applicant and DRIE, the letter of offer becomes a contract binding on both parties.

12.66 We examined the letters of offer for all projects in our sample and noted that many contained vague project descriptions, making identification of eligible costs or any subsequent recovery action, if required, very difficult. Also there was usually no definition of the control period – that is, the period during which a facility must be in commercial production and more than 50 per cent of the assets supported by DRIE in use.

12.67 Many letters contained a clause indicating that other sources of public funding had been considered in arriving at the amount DRIE offered. However, there was no specific requirement in the contract for the applicant to advise DRIE if other public funds were received. According to the Regulations, any significant change in other public assistance requires the Minister's prior written consent. "Significant" was not defined nor was DRIE's right to re-examine the amount of its assistance stated explicitly.

12.68 The Department should develop guidelines on the nature of the information to be included in the project description.

__DRIE's response__: The Department will develop guidelines on the nature of information to be included in the project description.

12.69 In its letters of offer, the Department should include:

- **the definition of key terms; and**
- **the requirement to be informed if other public funds are received by the applicant and the right to review the level of assistance offered.**

__DRIE's response__: A definition sheet will be drawn up to accompany each letter of offer. Revisions to the standard letter will be made respecting receipt of other assistance and possible revision of the amount offered as a result.

Additional Case Examples

12.70 In the following cases, a number of the problems we observed were present in the same project.

Case 1. Project eligibility, economic or social benefit, management information systems

12.71 A $5 million contribution to a non-profit foundation was announced by the Minister on 23 September 1983. A formal application for assistance was received by DRIE on 13 October 1983. The project was approved under sections of the Regulations requiring that the applicant provide specialized services to support commercial operations for the purpose of benefiting industrial development. A commercial operation refers to a manufacturing, processing, tourism, or designated service operation.

12.72 The applicant described itself as a national trust with the objective of conserving "buildings, sites and natural areas of importance to the country's heritage". Other documentation on file described its purpose as housing and street restoration and indicated that the project was essentially a redevelopment project for the purposes of benefiting retail operations.

12.73 The DRIE Tourism Branch indicated that the applicant was eligible because, by revitalizing the town core, the area would become more attractive to commercial operations such as tourism operators, and by reviving the community the town would become more attractive to manufacturers and processors. There was no indication in the file on how the project would meet the requirement in the Regulations that it provide specialized services to commercial operations for purposes of benefiting industrial development as defined in the Regulations.

12.74 The creation of 1,000 jobs was attributed to the project. This estimate was based on a calculation that included construction jobs and new indirect jobs in downtown businesses, although it was contrary to usual IRDP practice to include such jobs.

12.75 Although the total amount of $5 million in project funds was given to the applicant in advance in February 1984, no expenditures were recorded in the IRDP management information systems. The advance payment for this 10-year project was justified on the grounds that the foundation could then better plan and administer its activities. However, the project description in the contract did not provide details on how the $5 million would be spent.

Case 2. Project eligibility, economic or social benefit, prior commitment

12.76 A non-profit association of data processors received a provisionally repayable contribution of $200,000, or 90 per cent of eligible project costs, to undertake a marketing study. Under the eligibility requirements for the marketing element of IRDP, assistance to the data processing and computer services industry must be directed to the production of advanced software systems.

12.77 DRIE initially was of the opinion that the applicant was not eligible because it was not clear that the association's membership was primarily involved in the production of advanced software systems. DRIE asked the association to justify its eligibility and, after receiving its response, accepted it as eligible. There was no indication of further questioning. There was no documentation on file indicating how DRIE's initial concerns as to eligibility had been resolved. The eligibility of the project, which involved preparing a report to identify "market opportunities" and propose "remedies to trade barriers" for the computer software and service industry as a whole, rather than dealing specifically with advanced software systems, was not addressed on file. The Department subsequently advised us that they considered the association to be eligible. This was based on DRIE's belief that its membership was moving into software development, although there was little information on the extent to which this was happening. The application of this section of the Regulations has been difficult because the term "advanced" software is hard to define.

12.78 The contract, dated 15 August 1984, originally cited the date the application was recorded as received by DRIE – 24 April 1984 – as the effective date of assistance. This was back-dated to 1 March 1984, contrary to Section 29 of the Regulations which stipulates that the Minister may not make a contribution for a cost incurred prior to the receipt of the application. The first claim by the applicant included salary costs from 1 March 1984. This was an indication that the association had proceeded with the project prior to a decision by DRIE.

12.79 At the time the IRDP application was made, a senior DRIE officer was on an Interchange Canada assignment with the association until 30 June 1984. The intent was to extend the interchange assignment so that the officer could carry out the IRDP project for the association. The association was obliged to reimburse DRIE, under the Interchange Canada agreement, for salary costs for the period to 30 June 1984. However, we noted that DRIE had been advised by the association that it could not honour this commitment after 1 March 1984. Reimbursement for the period from 1 January 1984 to 31 December 1984 was not made until 21 January 1985 and took the form of DRIE's withholding payments under IRDP. It appears that IRDP funds were used so that the association could meet its prior obligations to DRIE under the original interchange agreement.

Defence Industry Productivity Program

12.80 The Defence Industry Productivity Program (DIPP) supports co-operative international agreements to share research, development and production with Canada's defence partners. At the time of our audit, its primary objective was to enhance Canada's economic growth through promoting defence or defence-related products for export. Strengthening the defence industrial base and developing and maintaining a defence technological capability were supporting objectives.

12.81 Assistance is provided for research and development, establishing Canadian companies as qualified suppliers, modernizing facilities, and carrying out market feasibility studies. In 1984-85, DIPP contributions totalled $152.7 million.

12.82 The program is managed centrally at headquarters. At the time of our audit, projects involving less than $500,000 in Crown assistance were authorized at the Assistant Deputy Minister level. Projects involving more than $500,000 were decided by the Minister. Applications for assistance in excess of $10 million required Treasury Board approval, and those greater than $20 million had to be approved by Cabinet.

12.83 In our 1982 audit, we examined the process by which proposed DIPP projects were reviewed and approved by ITC, and that department's procedures for monitoring projects, including identification of amounts due to the Crown from completed projects. In our current audit, we reviewed whether appropriate action had been taken to address the problems we had noted.

Project Assessment

12.84 The Department had not finalized a revised directive containing guidelines on how key criteria were to be interpreted and applied in assessing DIPP projects. The officially approved DIPP administrative directive was dated 1 September 1981. Considerable effort had gone into preparing drafts of revised directives dated February and August 1984. These added a requirement that no project would be supported unless assistance was required for the project to proceed in terms of the proposed location, scope or timing. The project and applicant must also be commercially viable, the project must represent significant net economic benefit to Canada and must involve substantial export sales. Because the directive containing these provisions had not been completed or officially approved, the Department did not follow a consistent approach in assessing expected benefits. All the criteria to be included in the calculation of economic benefit such as the ratio of export sales to assistance and cost per job created were not always documented in the assessment of projects. This made comparison between projects very difficult.

12.85 **The Department should finalize and obtain Treasury Board approval of the Administrative Directive for the Defence Industry Productivity Program.**

> ***DRIE's response**: Terms and Conditions were prepared for TB approval in August 1984, as were an Administrative Directive and Procedures Manual. Circumstances in the fall and winter of 1984-85 made it prudent to await*

seeking TB approval as a number of events were taking place that had implications for DIPP, namely the Ministerial Task Force on Program Review, negotiation of a Memorandum of Understanding with the Aerospace Industries Association of Canada, Office of Internal Audit review of DIPP, and the present Comprehensive Audit. A work plan aimed at developing new Terms and Conditions for TB approval and associated and directives and manuals is being implemented with a late fall completion date.

12.86 **All criteria relating to economic benefit should be addressed in project assessment.**

DRIE's response: Over the past year, the Department has implemented economic benefit assessment for all projects. In addition, the new Terms and Conditions and Directive will deal explicitly with the project selection criteria and will allow project comparison over time.

Level of Assistance

12.87 The maximum level of support, with some exceptions, is 50 per cent of eligible costs. At the end of 1982, the Department indicated that the normal level of DIPP assistance was being reduced from 50 per cent to 35 per cent.

12.88 For most projects, the level of assistance provided was not linked to factors such as the applicant's financial condition and ability to proceed, and there was no analysis on file of possible alternative levels of funding. The draft directive in use for DIPP projects indicates that the amount of DRIE assistance should be the minimum required for a project to proceed. However, without an explicit link between the need for assistance and the level of DIPP support, it is difficult for the Department to know whether the assistance offered is, in fact, the minimum required.

12.89 **The Department should document the link between the level of support and the applicant's need for assistance.**

DRIE's response: The Department agrees that the recommendation is valid in principle but wishes to stress that in practice the link between level of support and need for assistance is rarely amenable to precise measurement and documentation. In assessing projects the Department will continue to take into account and document the support companies' need to undertake particular projects, the expected benefits to the economy of the project, and the level of assistance required to enable companies to be competitive over the long run with their foreign competitors.

Project Sales Information

12.90 The value of sales to be generated by a project is one of the major factors to be considered in evaluating projects. Although DIPP has been in operation many years, the Department does not regularly compare actual sales attributable to DIPP assistance with the sales expected at the time it was approved. This was the case for 25 of 31 applicable projects in our sample. Such information would be useful in assessing the reasonableness of sales estimates in new applications. This is particularly important because many projects involve applicants who regularly receive DIPP funding.

12.91 The Department should document and compare actual sales attributable to DIPP assistance with the forecast made at the time projects were approved.

> *DRIE's response: The Department concurs in principle. This issue has been addressed in revisions to the draft directive made since the audit. However, the Department would like to indicate that to implement a complete system of comprehensive monitoring, including comparing actual and forecast sales, would take more resources than it presently has available for this task.*

Project Monitoring

12.92 Approved projects must be monitored to ensure that DIPP funds are being disbursed and used in accordance with contract conditions. There were significant gaps in the monitoring of approved projects. In 40 per cent of the cases we reviewed, there were no project status reports or other monitoring reports on file.

12.93 Projects should also be audited to ensure that only eligible costs have been claimed by the company and paid by the Department. DRIE uses the services of the Audit Service Bureau (ASB) of the Department of Supply and Services for the audit of DIPP projects. However, DRIE had not established terms of reference for ASB that covered matters such as the selection of projects, the scope and frequency of audit, or the nature of reports to be provided on the general status of DIPP project audits. We observed 11 projects in our sample that had not been audited, although they were two and three years old. The Department did not have a system that recorded which audits had been carried out or which remained to be done, and the status of those under way. The Department was aware of the need to address these issues, but had not yet finalized and implemented a policy on auditing DIPP projects.

12.94 The Department should finalize its policy and approach to the audit of DIPP projects.

> *DRIE's response: The Department concurs; this issue is being addressed in the development of new Terms and Conditions and Directives. In late 1984 the Department put a system in place which requires Supply and Services Canada to have audits carried out on all DIPP projects and to report quarterly on the status of audit assignments.*

Repayment of Crown Assistance

12.95 Assistance agreements for shared cost development contracts provide for repayment of Crown contributions under certain conditions. The standard agreement contract states that the company shall repay "all profits in excess of amounts which the Minister of Regional Industrial Expansion shall determine to be fair and reasonable derived from the work and from future contracts resulting from the work ... until the total contribution of Her Majesty hereunder shall have been repaid."

12.96 The Department has still not specified what "fair and reasonable" means, although we noted the problem in 1982 and the Department indicated that it was working on DIPP repayment procedures. The Department and the companies supported need this information to know the amount and timing of repayments that are to be made.

12.97 The need to establish what is meant by "fair and reasonable" and to incorporate this in DIPP contracts is illustrated in a case where the Department was having difficulty obtaining a $2 million repayment from a successful DIPP project. The company considered that its profit was fair and reasonable and had rejected the Department's request for repayment. The Department is pursuing the matter.

12.98 The Department was also having difficulty in obtaining information it needs to identify repayments owed. It requested information from recipients annually at a company's fiscal year-end on sales and profits generated by DIPP projects. Approximately one-third of the companies did not respond to the initial requests for information. In some cases the Department waited up to two years before following up on the these requests. As a result, potential repayments to the Crown were not being identified and collected on a timely basis.

12.99 **The Department should document guidelines on what is meant by "fair and reasonable profits" and establish procedures for identifying and obtaining repayments.**

> *DRIE's response: Due in large part to the difficulties in establishing a firm, uncontroversial definition of "fair and reasonable project" the Department is, in an increasing number of cases, using repayment conditions that are firm and specific. It is anticipated that the new contribution agreements being developed in tandem with the new Terms and Conditions and Directive will not include the "fair and reasonable" repayment clause.*

Management Information Systems

12.100 Key performance information on DIPP projects was not being entered into the Program Resource Information System for Management, the Department's main program information system. As a result, information was not available on basic program performance, such as expected export sales and job creation. With respect to the main financial system, the Resource Allocation Management System, we noted several errors in the statements of cumulative assistance granted and total funds available for future years.

12.101 The Department is aware of the need to capture DIPP information completely and accurately in these systems. A project to carry this out has been under way since April 1984.

12.102 **Special Case - Helicopter industry establishment.** In a contract dated 5 January 1984, Canada agreed to provide a $210 million (U.S.) contribution to a company to assist in the establishment of a helicopter manufacturing industry in Canada. DRIE's share was 60 per cent or $126 million (U.S.) and the Government of Quebec's share was 40 per cent or $84 million (U.S.). The total cost of the project was to be $392 million, excluding engine development and other associated costs. The company's share was $182 million. In 1984-85, payments by DRIE amounted to approximately $44 million.

12.103 We examined the information used in making the decision to proceed with the project, and the disclosure of information on the benefits expected from it.

12.104 The Department's analysis, which considered projected helicopter sales, job creation, and other benefits, indicated that the project would result in a net economic benefit to Canada of $219 million (Canadian). This was based on a total sales estimate, including both military and civilian sales and spare parts, of $7.2 billion (U.S.).

12.105 The market for civilian sales was estimated at $5 billion (U.S.). This estimate was based on extensive analysis of sales forecasts from manufacturers and a separate market study commissioned by DRIE. The remainder of the total sales estimated, $2.2 billion or 30 per cent, was accounted for by military and increased civilian sales.

12.106 We recognize that forecasting military sales is more difficult than civilian sales. However, given the significance of the estimated sales attributed to this market, we would have expected to find a documented rationale supporting the estimate at this level for military sales. Such a rationale had not been fully documented.

12.107 Departmental projections are that an average 2,773 jobs will be created from the project. We noted that, under the contract, the company is committed to create 250 engineering jobs. The remainder are dependent on production resulting from sales at forecast levels.

Canadian Industrial Renewal Board

12.108 In June 1981, the Canadian Industrial Renewal Board (CIRB) was formed as part of a new policy for the textile, clothing and footwear industries. Its purpose was to implement a five-year transitional assistance program to lessen dependence of these industries on special protective measures. The Board has a maximum of 17 members; 12 are appointed by the Governor in Council from outside the public service and 5 from government departments and agencies. The chairman and vice-chairman are private-sector members. The Deputy Minister of DRIE is one of the five public-sector members.

12.109 Assistance is provided under two programs – Sector Firms, and Business and Industrial Development. The first has as its objective the restructuring, modernizing and rationalizing of the textile, clothing and footwear industries. The Board provides funds to stronger, viable companies in these sectors with the intent of establishing competitive industries and lessening dependency on import restraint. The second program's objective is to create employment and strengthen and diversify the economy in areas dependent on the textile, clothing and footwear industries. It is jointly administered with DRIE, in that DRIE staff carry out the project analysis and CIRB makes the decisions regarding assistance.

12.110 Assistance under these programs takes the form of contributions. The current contributions budget for the five-year CIRB mandate is $351.7 million. The Sector Firms Program accounts for $241.5 million or 69 per cent, and the Business and Industrial Development Program accounts for $110.2 million or 31 per cent.

Accountability

12.111 CIRB is governed by the Canadian Industrial Renewal Regulations in deciding whether to accept or reject applications and how much assistance to authorize. The Board's decision is final. There is no provision for review of decisions by DRIE or its Minister. As a result, although CIRB funds are part of DRIE's general grants and contributions vote and its staff are DRIE employees, it is difficult for departmental management or the Minister to be held accountable for decisions under this program. A Special Committee of Ministers, chaired by the Prime Minister has been given a supervisory role over CIRB activities. Although the Committee has met to receive reports from CIRB and has provided policy direction, it has not taken an active role in reviewing Board decisions.

12.112 In effect, although the Board spends money voted to DRIE by Parliament, it is not accountable to the Department for its activities or decisions. The Department has 1 of 17 votes on the Board. DRIE's Main Estimates did not explicitly refer to CIRB until 1985-86, although other programs involving less expenditure have been mentioned.

Compliance with Program Regulations

12.113 Our review of projects funded by CIRB identified a number of areas where CIRB practices did not comply with its Regulations.

12.114 **Project eligibility.** CIRB practice had been to give contributions for consulting studies involving preparation of restructuring plans and comprehensive analysis of applying companies, although this was not permitted under the Regulations. As of November 1984, CIRB had committed approximately $8.5 million to such studies. When we brought this to the attention of CIRB staff, they indicated they were unaware that contributions were not permitted for consulting studies. The Regulations have since been amended to make them eligible in future.

12.115 **Repayable contributions.** One section of the Regulations requires that full repayment of the contribution be made a condition of assistance, although this condition may be waived by the Board. This is consistent with the philosophy of funding viable projects in strong companies that are likely to be successful. Although this indicates that the intent of the Program was to offer some contributions where public funds would be repaid, CIRB has made only 3 offers of repayable contributions out of 281 projects to mid-December 1984. In two instances, the Board changed recommendations for repayable to non-repayable contributions. In our review of other project files, we found no record of the repayment requirement being waived explicitly.

12.116 CIRB staff indicated that repayable contributions would be less of an incentive to industry and would add excessively to the costs of administration. However, these costs had not been calculated or analysed. In effect, this decision amounted to a shift in policy away from the intent of the program as outlined in its Regulations.

12.117 **Need for assistance.** Under the Regulations governing the Business and Industry Development Program, only capital projects that are undertaken following the approval of an application are eligible for a contribution. CIRB practice did not always comply with this provision. We observed instances where applicants had either started projects or where there were indications that applicants were committed to projects before applying for CIRB assistance.

12.118 **Type of assistance.** In two cases, CIRB offered assistance totalling $75,000 in the form of grants rather than contributions. These were for a trade fair and a fashion show. They were approved despite the fact that the Regulations specify contributions, rather than grants, and the applicants themselves were not eligible.

12.119 Subsequent to the offer, CIRB realized that it did not have the authority under its Regulations for this type of assistance. The grants were then funded under the Institutional Assistance Program of ITC. While this program allows for grants, they are for scholarships and studies. In our view, these grants were improperly authorized.

Consultations with DRIE

12.120 When CIRB was established, provision was made for consultation with the Textile, Clothing and Footwear Sector Directorate of DRIE. This consultation process was to avoid duplication of effort and to ensure that DRIE's knowledge base in this area would be available to CIRB. An internal form for presenting cases to the Board provided for incorporating the results of this consultation. Until mid-May 1983, DRIE staff were asked to assess projects, including an indication of support or non-support. Since then, DRIE and CIRB have agreed that sector branch comments would be provided only on domestic and international market considerations.

12.121 Our review of project files to May 1983 indicated that submissions to the Board were frequently misleading concerning consultation with DRIE's sector branch. Of the 63 contributions CIRB had approved under the Sector Firms Programs to that time, 21 were not supported by the DRIE sector directorate. In the material presented to the Board by CIRB staff, however, this lack of support was frequently either not indicated or expressed as support with reservations. We also noted two instances where DRIE was shown as supporting a project where it had explicitly stated that it did not. The DRIE sector directorate was shown as being in support of two additional cases after mid-May 1983, although this was not indicated in DRIE documentation.

12.122 In the project involving the largest single contribution approved by the Board – $30 million for a capital project over four years – the documentation presented to the Board contained extensive information on the restructuring plan. However, we noted that DRIE pointed out to CIRB that firm commitments had already been made for certain major projects of the program. These indicated the company would have incurred these expenditures without support in order to maintain its domestic market position. This information was not given to Board members in the project summary documentation. Although a DRIE representative attended Board meetings and presented the departmental position in this and other cases, this was a breakdown in internal project processing procedures.

Consistency with Program Intent

12.123 CIRB was established to help the industry become more competitive and less dependent on import restraint measures. Expansion in the industry was not to receive assistance except as a by-product of modernization. We noted, however, that CIRB provided assistance to all four companies in one sub-sector, leading to capacity increases of 62 per cent. At the time these projects were being considered, the industry was making representations to the Department of External Affairs and DRIE for additional import restraint measures to protect these planned capacity increases.

Program Evaluation

12.124 DRIE's program evaluation plan does not call for the CIRB program to be evaluated until 1988-89, although the CIRB mandate terminates in 1986-87. We believe that a prompt evaluation of CIRB and the effectiveness of this approach are particularly important because the CIRB model is being used for DRIE's Native Economic Development Program.

12.125 Because the Program Evaluation Branch did not plan to undertake an evaluation until 1988-89, CIRB was proceeding with its own evaluation. At the time we completed our audit, CIRB had retained consultants to conduct the initial evaluation assessment.

12.126 To avoid difficulties in future programs similar to CIRB, the Department should take steps to ensure that:

- **there is a clear accountability link between the program and the Minister, or the Department on the Minister's behalf;**

- **there is a periodic review of governing Regulations or directives;**
- **compliance with governing Regulations or directives is reviewed; and**
- **early provision is made for evaluation of the program.**

DRIE's response: The Department agrees with this recommendation.

Federal-Provincial Subsidiary Agreements

12.127 In 1974, the federal government signed 10-year General Development Agreements with all provinces except Prince Edward Island, where a Comprehensive Development Plan was already in place. These provided a statement of general development objectives for the province and set out a broad framework for meeting them through a series of more specific federal-provincial subsidiary agreements. When the General Development Agreements and the P.E.I. Plan expired on 31 March 1984, they were replaced by Economic and Regional Development Agreements, similar 10-year mechanisms to provide for the special economic development needs of each province while reducing regional disparity. The subsidiary agreements remain active until their particular expiry dates are reached. In 1984-85, DRIE's expenditures on subsidiary agreements were $174.1 million. During the audit, we reviewed projects under 18 subsidiary agreements, the P.E.I. Comprehensive Development Plan, the P.E.I. Federal Development Strategy, and the North Portage Development Project.

12.128 Specific subsidiary agreements are the means by which projects are authorized and financial commitments are entered into. Generally, agreements are administered by a management committee consisting of representatives from the province, DRIE, and other federal departments as appropriate, with equal representation of provincial and federal members. For most subsidiary agreements entered into under General Development Agreements, the province was responsible for overseeing implementation. Decisions to approve projects are made by the management committee based on project proposals submitted by provincial representatives. More recent subsidiary agreements have programs that are implemented directly by the federal government as well as programs implemented by the provinces.

Project Review and Approval

12.129 We examined the process by which specific projects were approved under subsidiary agreements, and whether projects were consistent with the objectives of the agreements under which they were approved. We also examined whether the need for DRIE assistance was taken into account, and whether payment arrangements complied with the approved terms and conditions in the agreements.

12.130 **Broadening of objectives and eligibility criteria.** All the subsidiary agreements we examined contained statements of objectives. In many, these had been translated into eligibility criteria against which projects could be assessed. However, we noted several instances where projects were approved that were not consistent with the objectives of the subsidiary agreement or of the specific program under which they were approved. We noted two agreements where the management committee had broadened the agreement objectives or eligibility criteria to include projects that would not originally have been eligible. In our opinion, these constituted changes to the substance of the agreements and were beyond the authority of the DRIE staff representative on the management committee. In two other agreements, similar amendments were made with the explicit approval of the Minister. Most subsidiary agreements signed after 1 April 1984 require Treasury Board and Governor in Council approval for amendments to agreement objectives.

12.131 Following are two programs in a subsidiary agreement in which this broadening of objectives and eligibility criteria took place without the Minister's approval. More examples are shown in the "Additional Case Examples" section, from paragraphs 12.146 to 12.162.

12.132 *Eastern Ontario Subsidiary Agreement - Tourism Program.* This program, with a $3.7 million budget shared equally between DRIE and Ontario, was established to "encourage private sector investment in major tourist facilities through the provision of project feasibility studies and the funding of selected tourist infrastructure".

12.133 During our audit, we observed that the objective of the agreement was broadened by the management committee to include provincial parks and special events and festivals. The approval of the Minister was not sought for this change. We estimated that approximately 35 per cent of the projects approved were not consistent with the original approved objectives. Some examples include:

	Total Approved Amount
Provincial Parks	
Frontenac Trail Centre	$350,000
Bon Echo Viewing Facilities	$220,000
Murphy's Point Amphitheatre	$80,000
Special Events and Festivals	
Old Fort Henry Sunset Ceremony	$335,000
150th Anniversary of Rideau Canal	$74,000
William Tell Jamboree	$65,300
Festival of the Islands	$40,000
Riverfest '83	$40,000
Canada Day Hockey Tournament	$27,300
Quinte Music Festival	$25,000

Note: DRIE's share of each of these projects was 50%.

12.134 In the case of the Frontenac Trail project, a request for additional funds to cover a cost overrun of $80,000 was rejected by the DRIE Minister on the basis that no additional funds were to be provided to projects under provincial jurisdiction. However, just over two months later, the management committee approved $50,000 toward the cost overrun, without resubmitting the project to the Minister.

These projects were funded under the Eastern Ontario Subsidiary Agreement - Tourism Program, but did not fit the program's objectives (see paragraph 12.132).

Amphitheatre at Murphy's Point Provincial Park

Trail Centre at Frontenac Provincial Park

Courtesy DRIE

Old Fort Henry Sunset Ceremony

12.135 *Eastern Ontario Subsidiary Agreement - Small Business Incentives Program.* This program, with a $10 million allocation shared equally between Ontario and DRIE, was established to assist small businesses in Eastern Ontario. However, no definition of small business was developed. We noted that the management committee broadened eligibility under this program to include relatively large companies, one of which had sales up to $76 million and employed 700 persons. One commonly used description of a small business under DRIE's Small Businesses Loans Act is one with sales of up to $2 million.

12.136 We were advised by program management that the original objective of the program had been shifted away from its emphasis on small business by the management committee. However, approval was not obtained from the Minister for this change.

12.137 **Need for assistance.** Most subsidiary agreements do not contain a clause to the effect that support will be given only to projects that require government assistance to proceed within the proposed location, scope or timing. This means that there is no requirement that program management take into account whether public funds are needed for a project to proceed. As a result, funds may be spent on projects that do not require DRIE support.

12.138 We believe that, wherever appropriate, agreements should contain this type of provision, and noted that some of the recently signed subsidiary agreements did so. In the absence of this requirement, we noted instances where it appeared that projects had or would have proceeded without DRIE assistance.

12.139 *Eastern Ontario Subsidiary Agreement – Tourism Program.* As a condition of a 40-year lease of land from the National Capital Commission, a company was required to construct a pavilion and marina on the land. In 1983, the company applied to the Tourism Program for assistance in constructing the facility. In March 1983 it was offered $100,000 (DRIE share 50 per cent), despite the fact that the construction involved was an integral part of the company's commitment to the NCC for obtaining the lease, and that an internal management committee held the opinion that the project would likely proceed with or without the funding.

12.140 **Payment in advance of requirement.** The terms and conditions of some subsidiary agreements call for DRIE to make payments when progress on a project has reached a specific point, or a certain level of expenditures on a project has been reached. We noted two subsidiary agreements in which these terms and conditions were not complied with.

12.141 *Ontario Pulp and Paper Modernization Subsidiary Agreement.* We examined 5 of the 12 projects under this agreement. Under the agreement, recipients were to engage in a modernization program of a specific dollar value expressed in constant 1978 dollars, and were to receive a specified amount of government assistance. If recipients did not expend the amount called for in the modernization program, funds could be recovered from them.

12.142 In four projects, the agreement with the company stipulated that DRIE was to pay the full amount of its assistance before the company had spent the amount required on its modernization program under the agreement. We also noted that payments were based on expenditures in current dollars, but these expenditures were not adjusted back to 1978 dollars prior to payment to DRIE. As a result, recipients could, and in two cases did, receive full payment without spending the full amount called for in the modernization program as expressed in 1978 dollars.

12.143 *Nova Scotia Ocean Industries Subsidiary Agreement.* The terms and conditions approved by Treasury Board, under which assistance was given in the Applied Research Support Program, called for DRIE to pay recipients when facilities were in operation. However, the arrangements made by DRIE in three projects permitted advance or progress payments to be made. These projects accounted for 95 per cent of the $3 million of projects approved to 31 March 1984.

Information for Decision Making

12.144 For some projects requiring ministerial or Treasury Board approval, the information put forward was accurate but, in our opinion, incomplete. In projects under four agreements, information that we consider important was not disclosed in the project submission.

12.145 This took the form of omitting the approved objectives of a program, or not describing how projects were eligible under agreement objectives. We also noted instances where financial information such as other federal government funding was not included, or there was no reference to the fact that the full payment was to be made in advance. In one subsidiary agreement, the number of jobs to be created from the projects was increased by using a method of calculation that differed from normal DRIE practice.

Additional Case Examples

12.146 **North East New Brunswick Subsidiary Agreement.** This agreement, signed in 1977, involves total planned expenditures of $95.5 million, with the DRIE share being $67.2 million. We examined the Resource Management Program involving DRIE expenditures of $17.7 million. Its purpose is "to create employment through the improved management and utilization of the renewable and non-renewable resources of the region and to capitalize upon the tourism potential of the region". The program rationale indicates that particular support is to be given to projects "which improve productivity and reduce seasonality in employment or which create counter-seasonal job opportunities".

12.147 In the summer of 1983, $13 million that had been reserved for a major zinc smelter project became available for other projects. The Resource Management Program was allocated $7.3 million of these funds, and the subsidiary agreement was extended by one year, to March 1985, to provide adequate time to identify additional projects to use the funds.

12.148 Despite the rationale for the program, we noted, among the projects we reviewed, two private golf and country clubs that received funding of $425,000 for golf course construction in June and July 1984. This was in addition to $180,000 previously provided by DRIE for these golf courses. The Department indicated to us that the golf courses were funded as a tourism initiative. However, we could not find any documented analysis of how they would contribute to tourism potential. A tourist development plan, commissioned with agreement funds, for the county in which one of the golf courses was located did not identify golf courses as potential tourist attractions. A tourist development plan for the county in which the other golf course was located was not finalized at the time the DRIE assistance was approved.

12.149 These two projects had also received approximately $1.2 million in funding from a Canada Employment and Immigration Commission Program, which supported them for purposes of reducing the rate of unemployment, creating permanent employment and improving community recreation.

12.150 Another project, approved in October 1984 under this program, involved $400,000 for a new marina site, also on the basis that it would encourage tourism. A feasibility study assumed that 90 of 100 berths would be for local users; we were informed that 60 to 70 might be a more realistic estimate. Even the lower number indicates that the marina was intended to be mainly for local users although it was justified on the basis of tourism potential.

12.151 DRIE's definition of a tourist is someone who crosses a provincial border or travels more than 80 kilometres from home. There was no analysis of how these projects could be justified in terms of encouraging tourism under this definition. There was no consultation with DRIE's Tourism Branch on these projects. We also noted that the marina had received an additional $889,000 in support from other federal programs.

12.152 At the time the marina project was approved, the Minister's approval was explicitly required because the Minister had expressed a particular interest in projects under this subsidiary agreement. DRIE's practice at the time was to exclude construction jobs from direct job creation numbers and to convert seasonal jobs to an annual basis in preparing fact sheets for the Minister. For this project, 20 construction jobs and 5 operating jobs were shown on the Minister's fact sheet as resulting from the project, giving a cost-per-job figure of $18,000. Without construction jobs, the cost per job increased to $80,000. Had these seasonal operating jobs been converted to an annual basis, the cost per job created at the marina would have been approximately $375,000.

12.153 We noted two other projects under this subsidiary agreement where information was not presented in a way that highlighted clearly and completely the cost per job created. One involved DRIE support of $750,000. The Minister's fact sheet showed 23 jobs created, for a cost per job of $32,600. If construction jobs had been excluded, the cost per job would have been $93,750. If the jobs had been converted to an annual basis, the cost per job would have been $250,000. In the second case, DRIE funding of $225,000 was approved for a project involving 12 jobs. The cost per seasonal job shown was $18,750. Excluding construction jobs, the cost per seasonal job would have been $56,250. On an annual basis, the cost per job would have been $160,000.

12.154 **Prince Edward Island Comprehensive Development Plan - Industrial Development Program.** In February 1984, DRIE rejected a proposal for three projects under this plan to purchase equipment that would allow fish to be unloaded more rapidly from fishing vessels. Delivery of this equipment was expected to take six weeks. DRIE rejected the project because there was no budgetary provision for this type of equipment under the plan and the proposal was not considered feasible at that time.

12.155 In mid-March 1984, DRIE agreed to support the projects under the Industrial Development Program because funds had become available. The termination date for approval of new projects under the program was 31 March 1984. Official approval was given on 30 March 1984 for a contribution of $97,200. On 25 April 1984 a claim for $97,150 was received and subsequently paid. The claim indicated that all expenditures were incurred prior to 31 March 1984, notwithstanding the six week delivery period.

Fish unloading system at Tignish, P.E.I. This is one of three systems for which funding was approved one day before program expiry (see paragraph 12.154).

12.156 The objective of the Industrial Development Program is to "focus on opportunities for resource based industries while diversifying the manufacturing base where appropriate." These projects did not involve a diversification of the manufacturing base, nor did they fit the DRIE definition of fish processing, which is described as taking place after the fish have been landed. Eligibility was broadened to include projects that involved quality improvements in the harvesting part of the fishing industry, which is part of the mandate of the Department of Fisheries and Oceans, rather than DRIE.

12.157 **North Portage Development Project.** This is a $66 million urban redevelopment project with costs shared equally among DRIE, the City of Winnipeg and the Government of Manitoba. Payments are made to the North Portage Development Corporation, which was established to administer the project. The project was approved in 1983 by Treasury Board under the Institutional Assistance Program (IAP) of the former ITC Department. We recognize that this project is technically not a subsidiary agreement. However, because it shares many of the characteristics of a subsidiary agreement, we treated it as one for purposes of our audit.

12.158 The objective of the contribution to the North Portage Development Corporation was "to enable it to undertake the construction of infrastructure in support of major public, private and institutional development of the North of Portage area in Winnipeg." However, this objective was not consistent with IAP objectives. The IAP objective that appeared closest in terms of this project stated that IAP's purpose was "to assist institutions, organizations and associations in the establishment of non-profit centres or institutes which provide specialized services to industry." The project involves land assembly and the construction of retail space, commercial space, office space, housing units, a hotel and a public mall. In our view, this type of urban infrastructure is not consistent with the establishment of a non-profit centre or institute that provides specialized services to industry. The submissions to Treasury Board did not address how this project could be considered as consistent with IAP objectives.

12.159 We were advised that a verbal legal opinion was obtained to the effect that IAP was the most appropriate program for the payment. However, this was not confirmed in writing.

12.160 DRIE paid approximately $1 million in 1983-84 under its agreement with the Corporation. The agreement also required that all the remaining federal share of $21 million be advanced by 31 March 1985, regardless of the costs actually incurred by the Corporation. DRIE complied with this requirement. In our view, this was an agreement to pay in advance of need, because the federal one-third share of costs at that date would have amounted to approximately $6 million, not $22 million.

12.161 We were advised by the Department that funding for the project came from the Special Capital Recovery Projects Program (SCRPP) and advice on the payment arrangements was given through headquarters from the SCRPP Secretariat. Because SCRPP projects were "fast-tracked", this advice was only verbal. By 31 March 1985, expenditures had been made to acquire property, but construction had not been started. This meant that the project did not meet the intent of SCRPP to aid economic recovery by accelerating construction work on capital projects. We also noted that only the federal government was required to advance all its funds by a particular date. Agreements with the other parties called for them to advance their funds on the basis of actual project expenditures.

12.162 This payment in advance of need amounted to an additional federal subsidy to the Corporation. There is no provision in the agreement to return the interest on this advance payment to the Crown.

Conclusion: Subsidiary Agreements

12.163 Subsidiary agreements are managed through a process that is often designed to assign the lead role to the provinces, although the major portion of the expenditure is funded by DRIE. Activities under all subsidiary agreements have been delegated to regional offices with little or no monitoring by headquarters. Information to headquarters is largely on expenditures and commitments, and not on the nature of projects supported or on results achieved.

12.164 The objectives of subsidiary agreements we examined were frequently stated in very broad terms, but were usually translated into more precise sub-objectives or eligibility criteria to guide decisions on particular projects. However, the amount of money specified in a subsidiary agreement to be spent by a certain date frequently appeared to become an expenditure target. This undoubtedly contributed to the instances we noted where projects were approved that did not appear to be consistent with the objectives or eligibility criteria of the program under which they were funded. This tended to occur more frequently in subsidiary agreements that were designed to cover specific geographical areas.

12.165 Subsidiary agreements are managed in an environment where the DRIE regional office and the agreement management committee are subject to pressures from all levels of government, in addition to the pressure normally associated with this type of highly discretionary contribution program. In a number of instances, we were advised that a decision was made in a particular agreement because of what a provincial representative on the management committee wanted, and that regional staff had little choice but to accept the provincial proposals.

12.166 In March 1985, the Department instituted new procedures for review and approval of projects under sub-agreements. They must now follow the approval and sector sign-off procedure used for the Industrial and Regional Development Program. This should serve to strengthen the project approval process and lessen the likelihood that questionable projects will be approved. However, in our opinion, there is still a need for review of projects for consistency with program authorities and directives, as well for compliance with administrative and financial requirements relating to a project or subsidiary agreement. This should be included in regular program review activities.

12.167 **DRIE should ensure that a clause to the effect that support will be provided only for those projects where government assistance is required is contained in all subsidiary agreements where it is applicable.**

DRIE's response: The Department agrees with this recommendation and is recommending such a clause in all subsidiary agreements where it is deemed appropriate.

12.168 Departmental program review activities should include a review of subsidiary agreement projects for consistency with program authorities and directives and for compliance with administrative and financial requirements.

DRIE's response: This will be included in the activities of newly created corporate accountability centres.

Tourism

12.169 In the tourism sector, we examined tourism-related projects approved under IRDP and subsidiary agreements. A tourism strategy and guidelines were issued under the Industrial and Regional Development Program, but the tourism element of the program was cancelled in November 1984 in favour of using the mechanism of subsidiary agreements to fund tourism-related projects. However, the headquarters Tourism Branch did not review regional projects related to tourism under some subsidiary agreements, even though the mandate for the corporate Tourism Branch referred to shared management of DRIE provincial tourism expenditures and ensuring co-ordination of all federal tourism-related programs. In addition, information on subsidiary agreement projects was not available from PRISM, the main management information system.

12.170 As a result, it was difficult to see how the Department could effectively monitor its tourism expenditures across the country and ensure that projects funded are consistent with an overall tourism strategy. The new March 1985 procedures requiring sector branch sign-off of subsidiary agreement projects greater than $500,000 should ensure that Tourism Branch is aware of the more significant tourism projects proposed under subsidiary agreements. However, because of the extent to which tourism projects are now being funded under subsidiary agreements, we believe that consultation with the sector branch for projects involving more than $250,000 in DRIE support should be required, as it is for projects under IRDP.

12.171 The Department should extend the requirement for consultation with Tourism Branch to subsidiary agreement projects involving DRIE support greater than $250,000.

DRIE's response: An informal consultative process is already in place. Steps will be taken to formalize this process for projects involving DRIE support greater than $250,000.

Shipbuilding Industry Assistance Program

12.172 The Shipbuilding Industry Assistance Program (SIAP) provides subsidies to eligible Canadian shipbuilders for construction of certain vessels and assistance to improve the performance capabilities of Canadian shipyards, to make Canadian shipbuilders competitive with foreign builders. Contributions are given under the authority of the Shipbuilding Industry Assistance Regulations, which are revised periodically to allow for different rates of assistance. In 1984-85, subsidy payments under SIAP totalled approximately $20.5 million. Under the performance improvement grants element, $6.3 million was given out in 1984-85.

12.173 This program is now being phased out. Accordingly, we concentrated our audit on those issues in the program that would continue during the phase-out period and that might be present if a similar program were launched in the future.

12.174 In 1982, we examined this program as part of our audit of ITC. We observed that there was no documented program directive that described the objectives of the program, or guidelines on how the Regulations should be interpreted. Since then, the Department has developed guidelines for the performance improvement grants element. Although the production subsidies are being phased out, claims will continue to be processed for projects approved prior to the termination of the program.

12.175 The shipbuilding subsidy was administered by the Department as a fixed rate subsidy program. If an applicant was considered eligible, the maximum subsidy was approved. However, the Regulations state that the Minister "may" provide a subsidy to eligible applicants and determine the upper limit of the amount of the subsidy. The amount of the subsidy was not linked to a need for assistance. There are other references in the Regulations to the Minister's ability to exercise discretion in particular situations. We believe that, if an industrial assistance program is to be administered as an entitlement program, this should be explicitly documented and authorized, and the administration of the program should be consistent with its governing regulations.

12.176 In reviewing subsidy payments in 1984-85, we noted that a final payment of approximately $250,000 was made on a subsidy of $2.2 million for construction of a ship for a subsidiary of a Crown corporation, in spite of the fact that the Regulations prohibit any subsidy to a shipbuilder for a vessel intended to be owned by Her Majesty in Right of Canada. No internal legal advice was sought prior to payment. The Department subsequently obtained an opinion that the payment was permitted because the subsidiary company was not an agent of Her Majesty in Right of Canada. However, the Department advised us that in administering this program it considers Crown corporations to eligible ship owners in the same way as private companies, and that the intent of the Regulations was not to exclude vessels intended for Crown corporations from being eligible. In our opinion, the wording of the Regulations is clear. If the Department believes that the wording of the Regulations governing the Program is inappropriate, it should seek to have the Regulations revised.

12.177 On DRIE's behalf, the Audit Services Bureau performs field audits of projects to determine the eligibility of costs in claims submitted by shipbuilders. In 1982, we observed that program management did not document its rationale in deciding on how qualifications raised by Audit Services Bureau were to be resolved. This was still the case in over half of the reports we examined. Although decisions such as whether to allow certain expenditures as eligible costs were made on an individual basis by SIAP staff, there was no documented policy on how to resolve these difficult matters. Without documentation on how such issues are to be resolved, there is a risk that ineligible project expenditures will be allowed and paid for by SIAP.

12.178 For the Shipbuilding Industry Assistance Program, the Department should document its guidelines for the disposition of audit concerns raised by Audit Services Bureau.

> *DRIE's response: Procedures are in place for the full review of ASB audit qualifications, and these are resolved in conjunction with ASB and the shipbuilder as required. Whereas the Department is satisfied that these items are resolved appropriately, it will review the procedures with a view to documenting the policy for disposition of audit concerns.*

12.179 Under the performance improvement element of SIAP, $6.3 million was given in 1984-85 and approximately $100 million remains to be given over the life of the program. According to Regulations, these grants to shipyards must be repaid if the subsidized assets are diverted to other uses or disposed of within five years of receiving assistance. In 1982, we observed that the Department had no procedure for monitoring compliance with this requirement. As a result, there was no assurance that the subsidy was being used for its intended purpose. In our current audit, we observed that this was still the case. However, the Department has advised us that it is implementing an inspection procedure for monitoring this requirement.

Small Business Loans

12.180 Under the Small Businesses Loans Act (SBLA), the Department guarantees loans made by commercial institutions to small businesses. Loans may be given for the purchase of equipment or land, and the establishment, improvement or modernization of plant, equipment or premises. Eligible businesses are those in the manufacturing, trade, service, communications, construction and transportation sectors.

12.181 In 1984-85, there were 34,500 loans made under SBLA for a total value of $997 million. Commercial lenders are responsible for making the loans and for their general administration. The Department's main responsibilities are for processing lenders' claims for compensation on loan defaults, maintaining records of losses and other program information, and initiating recovery efforts.

12.182 In our 1982 audit of ITC, we examined and reported on the Department's procedures for monitoring loan guarantees, payment of claims and recovery of losses. Since then, the Department has improved its review procedures for payment of claims.

12.183 Although DRIE's procedures for reviewing claims for payment have been strengthened, our random sample of 40 claims paid by DRIE indicates that these procedures can be improved further. We noted an instance where further information should have been obtained prior to a claim being paid. A claim for $75,500 was paid to a chartered bank in

April 1984. Documentation on file showed that a company had used its $84,200 loan from the bank to help acquire assets valued at approximately $162,000 in 1980. The company stopped operating in 1982. These assets were disposed of for $6,000 in July 1983 by the bank and the company agreed to this disposal amount. In our view, DRIE should have required the bank to document why an amount of $6,000 was accepted against assets acquired two years earlier at a much higher amount.

12.184 While this type of case appeared only once in our sample, it illustrates that a high level of effort has to be maintained in reviewing claims, particularly since claims have risen steadily from $6.8 million in 1981 to $29 million in 1984-85.

Machinery Program

12.185 The Machinery Program encourages Canadian industrial development by providing tariff protection to Canadian machinery manufacturers, assisting machinery users through remission of duty to acquire machinery not available from production in Canada, and establishing contacts between machinery producers and users to encourage the purchase of Canadian-made machinery. The value of duty remissions authorized in 1984 is estimated by DRIE to be in the order of $350 million.

12.186 The Department has taken action to address the major concerns noted in our 1982 audit of this program. Departmental policy and procedures in support of maintaining the industry data base have been documented, and an internal quality review of remission decisions where the duty value is less than $1 million has been implemented. As a result of this review, steps have been taken to improve product coding in the data base. This action should help reduce the possibility of errors in future remission decisions.

Internal Audit

12.187 The Department has an internal audit policy that outlines the role and responsibilities of Internal Audit and establishes that Internal Audit is to have an unrestricted mandate. A Departmental Audit Committee, chaired by the Deputy Minister approves annual and multi-year audit plans, and reviews all Internal Audit reports and action taken on recommendations. We concluded that the mandate of Internal Audit, together with the role played by the departmental Audit Committee, met the expected standards for an effective internal audit function.

12.188 We focused on how Internal Audit planned and conducted its audits, reported findings, and used resources. We examined 12 of 17 audits for which reports had been issued at the time of our audit. In reviewing audit project files, we noted some key areas that could be improved. In most projects, audit criteria were not documented, nor, in many instances, were the nature and extent of the audit work performed. Audit programs were not regularly prepared and used. Audit reports were finalized and reviewed by the departmental Audit Committee; however, reports frequently had no conclusion linking back to stated audit objectives. Action is being taken by departmental management to address these points and others with respect to audit planning and control.

12.189 Many audits focused on the management systems and controls that support program delivery. However, these audits did not include sufficient substantive testing in terms of review of documentation in project files to assure senior management that systems and controls were functioning effectively and that program authorities were being complied with.

12.190 **Internal Audit should increase the amount of substantive testing it carries out in its audit projects.**

> *DRIE's response: The Office of Internal Audit has increased the amount of substantive testing it now carries out in its audit projects in order to ensure that systems and controls are functioning properly and that program authorities are respected.*

Program Evaluation

12.191 Under the departmental program evaluation policy, the Program Evaluation Branch at headquarters is responsible for preparing the departmental evaluation plan and ensuring that it is implemented across the Department. The Branch is also responsible for carrying out evaluations of some headquarters programs and for the overall quality of program evaluation in the Department. Under the policy, subsidiary agreements are evaluated by regional evaluation staff which the Regional Executive Directors as the clients for these evaluations. A Program Evaluation Review Committee, chaired by the Deputy Minister, approves the departmental evaluation plan and reviews completed evaluations.

12.192 We examined how effectiveness evaluation activities were being carried out for two major programs, IRDP and federal-provincial subsidiary agreements. We reviewed the extent to which the recommendations from a previous major evaluation of DIPP were being used in the continuing operation of the program. We also examined the role of headquarters evaluation staff relative to that of regional evaluation staff.

12.193 We found that the program evaluation infrastructure was generally appropriate. However, the Program Evaluation Branch at headquarters did not become involved in regional evaluation activity unless requested to do so. The Branch did not, as a matter of course, review regional program evaluations before they were presented to senior management. In a number of instances, evaluations of subsidiary agreements had not been carried out as required.

12.194 **The Department should ensure that regional evaluation plans cover all subsidiary agreements, and progress against plans should be monitored by the Program Evaluation Branch. Completed evaluations should be reviewed by the Branch to ensure that they meet appropriate quality standards.**

> *DRIE's response: The Department concurs that in the past not all agreements were properly reflected in regional evaluation plans nor were all completed evaluations systematically reviewed by Program Evaluation Branch, Ottawa. To ensure that full remedial action is undertaken a list of all agreements and*

their evaluation status for which the Department is responsible has been prepared. In addition, copies of all completed evaluations are now distributed to Program Evaluation Branch, Ottawa for review and retention in the Branch library.

12.195 In April 1984, proposed evaluation frameworks for the IRDP components were sent to the regions. One of their purposes was to implement data collection procedures and performance indicators for the program. Specific data were to be collected on each project and entered into the management information system to permit subsequent measuring and monitoring of program effectiveness. The frameworks were intended to use information that could reasonably be expected to be found in project files.

12.196 The frameworks were never finalized. In addition, data the Branch expected to find on file were not present for over half the project files we reviewed. As a result, measurement of the effectiveness of the program will be considerably more difficult. In our opinion, the Branch, although not directly responsible for project files or for data quality, should have monitored whether information of appropriate quantity and quality was being collected.

12.197 **The Program Evaluation Branch should determine why data necessary for evaluation of the IRDP were not being systematically collected and take the action necessary so that these will be collected for a future evaluation of the program.**

> *DRIE's response: The Department agrees that the consequences will be a more expensive and time consuming effort to evaluate IRDP when the time comes but, nevertheless, a task that can be done given past experience with programs such as DIPP, PEMD, SPLA, etc. In the broader context of monitoring actions (data collection, etc.) resulting from any approved evaluation frameworks, the Department has instituted procedures to ensure that such actions are more closely monitored in future with any deviations noted and corrective action, as appropriate, taken.*

12.198 The departmental evaluation policy establishes that the Program Evaluation Branch is responsible for monitoring and reporting on the implementation of approved evaluation recommendations. Following the 1980 evaluation of DIPP, an implementation status report on the recommendations was tabled by the Program Evaluation Branch at the Program Evaluation Review Committee in November 1981. No further follow-up reports were produced. Given the importance of the evaluation as one of the factors leading to increased resources for DIPP, we believe that there should have been more regular monitoring of the implementation of approved recommendations in the DIPP evaluation.

12.199 In regional offices there were no procedures in place to ensure that evaluation studies were used. There was no indication that evaluation recommendations were systematically accepted or rejected, and that plans to implement recommendations were established or monitored.

12.200 Unless the Branch monitors and reports on how the results of evaluations are being used by program management, the Branch and the Department as a whole cannot know whether evaluation is a useful management tool.

12.201 The Program Evaluation Branch should follow up and report on the implementation of accepted evaluation recommendations for improving program performance.

> *DRIE's response: The Department acknowledges the need to improve upon some of its monitoring and implementation procedures with respect to evaluation recommendations, in particular, a delineation of the respective role of the Director Program Evaluation, Office of Internal Audit, Regional Evaluation Directors/Managers.*

DEPARTMENT OF TRANSPORT –
AIR TRANSPORTATION PROGRAM

DEPARTMENT OF TRANSPORT - AIR TRANSPORTATION PROGRAM

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DEPARTMENT OF TRANSPORT - AIR TRANSPORTATION PROGRAM

Introduction

13.1 The Canadian Air Transportation Administration (CATA), an arm of the Department of Transport, incurred costs of $1.219 billion in 1984-85 to provide a wide range of airport, navigation and regulatory facilities and services (see Exhibit 13.1). CATA has generally provided the travelling public with a high level of service and extensive facilities that promote safety. Consumers of these services include persons who travel by air, national and international commercial airlines, and general aviation (generally smaller planes used by firms and individuals for business and recreation). Revenues from user charges – ticket taxes, landing fees and other levies designed to recover the costs of aviation services from beneficiaries of the system – exceeded $541 million in 1984-85. This represents a cost recovery rate of 44 per cent, a rate that is higher than other modes of transportation under federal jurisdiction, such as rail passenger and marine transportation.

13.2 Through the National Transportation Act of 1967 and the Aeronautics Act of 1919 (as amended), Parliament has provided a mandate to the Department of Transport to promote an economic, efficient, adequate and safe national civil air transportation system. Although these Acts do not require government ownership, operation, or financial support of aviation facilities, CATA owns and manages most of Canada's airports and air navigation facilities, and makes financial contributions to a range of facilities owned by non-federal jurisdictions.

13.3 The objective of the Air Transportation Program, as stated in Part III of the 1984-85 Estimates, is "to attend to the development and operation of a safe and efficient national civil air transportation system that contributes to the achievement of government objectives, and to operate specific elements of the system." The program's sub-objectives relate to economy, efficiency, cost recovery, equity and accessibility of the aviation system.

13.4 The National Transportation Act indicates how economy and efficiency can be achieved in the transportation sector (see Exhibit 13.2). Commercial viability, with recovery of costs from users, is expected to be a principal means of achieving economy and efficiency, as it is in the private sector. CATA has defined commercial viability as "the ability to generate sufficient revenue to recover the costs of air transportation facilities and services on commercial terms in support of transportation objectives."

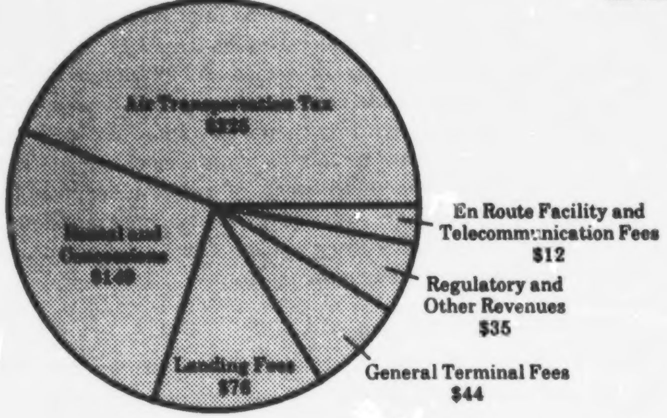
13.5 In the private sector, cost recovery is a matter of survival, and related financial targets foster a disciplined, efficient approach to managing an operation. In a government organization, cost recovery also helps maintain control over expenditures. Faced with the prospect of having to pay fees that are proportional to the services provided, users – that is, airlines and their passengers – will exert pressure to ensure that only necessary expenditures are made. And faced with the need to recover costs, government will have an incentive to offer only those services that users are willing to pay for. Where this discipline

Exhibit 13.1

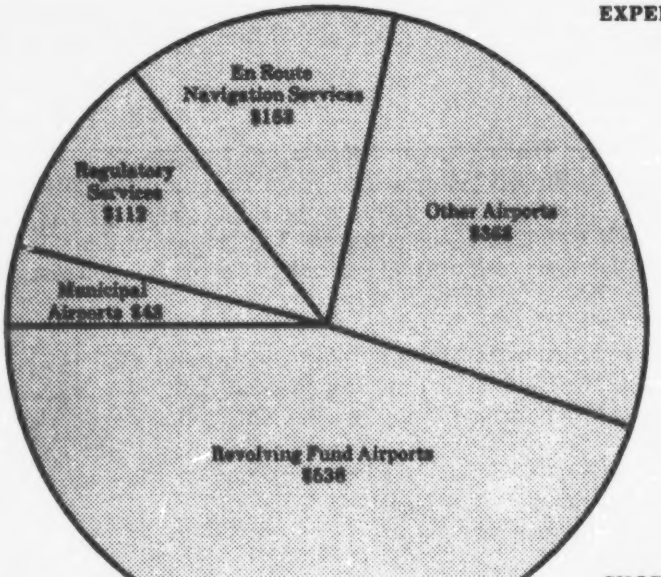
DEPARTMENT OF TRANSPORT - AIR TRANSPORTATION PROGRAM REVENUE AND EXPENSES1984-85

(in millions of dollars)

REVENUE: **$ 541**



EXPENSES: **$1,219**



SHORTFALL: **$ 678**

(GOVERMENT FINANCIAL SUPPORT TO THE AIR TRANSPORTATION PROGRAM)

Expenses include: operating and maintenance, overheads, depreciation and interest on capital invested.

is not enforced, there is a tendency for users to ask for increasingly higher levels of service, and for government to provide facilities and services beyond what are needed at the time, leading to financial deficits that must ultimately be covered by all taxpayers.

13.6 In 1969, Parliament authorized the division of the country's airports into two separate categories, those capable of paying their way and those requiring continued subsidization. This was in line with an international trend to look at airports as potentially viable commercial enterprises. Toronto (now Lester B. Pearson) and Dorval International Airports, for which full cost recovery was expected, were financed through a Revolving Fund. (A Revolving Fund is a means by which Parliament provides continuing authorization for an operation that is expected to be largely funded by users.) The others were not expected to be self-sufficient but to recover costs from users to the extent possible.

13.7 In 1979 there was a major reorganization of the system. The system of airports considered to be mature and expected to recover costs was increased to 23 airports financed through the Self-supporting Airports and Associated Ground Services Revolving Fund (the Revolving Fund). The principle of cross-subsidization, whereby surplus revenues from profitable airports may be used to help balance under-recovery at unprofitable airports, was endorsed by the Government. These 23 airports and associated navigation facilities serve approximately 90 per cent of airline passengers in Canada and account for over 46 per cent of all take-offs and landings at Canadian airports.

13.8 Other airports operated by CATA, the en route navigation system, and certain regulatory activities were recognized as needing some financial support from the Consolidated Revenue Fund.

Audit Scope

13.9 We looked at the management process for the Air Transportation Program, using two principal criteria to judge its adequacy. First, we expected it to be designed to promote economy and efficiency through CATA's objective of cost recovery. Second, where spending decisions entailed a departure from full cost recovery, we looked for adequate procedures to identify benefits and costs and justify expenditures on that basis.

13.10 We assessed CATA's work in developing information on the costs and benefits of the services it offers and how it communicates this information to those who use the system and to Parliament. We placed special emphasis on the financial planning and control procedures CATA uses to assess the need for new or expanded airport and air navigation facilities, and examined the costs associated with the service provided to the airlines, general aviation and the travelling public. As well, we examined the Administration's performance measurement systems.

13.11 In addition to controls within CATA, we examined the Department of Transport's corporate controls. In particular, we assessed their adequacy to identify and correct any major deficiencies in CATA's management of the Air Program. Specifically, we assessed the role of the Senior Financial Officer, Internal Audit and Program Evaluation.

Exhibit 13.2

LEGISLATIVE AND POLICY DIRECTION FOR COST RECOVERY

CATA's authority to recover costs from users of the aviation system and to operate under the financial objective of commercial viability is based on legislation and government and departmental policies. Parliamentary authority recognizes cost recovery as a means of achieving economy and efficiency.

1967 - Parliament	In 1967, section 3 of the National Transportation Act declared that "an economic, efficient and adequate transportation system..." **is most likely to be achieved when** "each mode of transport, so far as practicable, bears a fair proportion of real costs."
1975 - Government	The federal government's 1975 Transportation Policy proposed the principles that commercial viability should be an objective of transportation services and facilities and that, where a particular policy of the Government requires departure from commercial viability, the costs involved should be clearly identified.
1978 - Department	The Department of Transport's Objectives, Organization and Policies Manual stated that airport, en route and regulatory costs will be fully recovered, except for costs to be assumed by the government for the implementation of a particular government policy requiring departure from the objective of commercial viability. Costs were defined as direct operation and maintenance expenses, indirect expenses, depreciation and an amount for the government's associated interest expenses.
1979 to 1985	In the Estimates, Transport Canada reported to Parliament that one of its sub-objectives for CATA was "to recover the costs of departmental facilities and services that are provided in support of civil air transportation requirements."
1985	In Part III of the 1985-86 Estimates CATA reported to Parliament that its objectives were as follows:

Self-supporting Revolving Fund Airports	Other Airports
To develop and operate those international and national airports included in the Self-supporting Airports Revolving Fund in such a way as to recover their costs.	To attend to the development and operation of a network of regional and local airports that enables all areas of Canada to have reasonable access to air transportation. To recover costs from airport users to the extent feasible.

13.12 We visited a number of airports and air navigation facilities in Canada to examine operating procedures. We also visited airports of similar size in the United States, with similar traffic and weather conditions, to compare operating methods and costs of operations. In an effort to understand the environment in which the Program operates, we met with representatives of commercial airlines and owners of private planes and reviewed literature on aviation cost recovery in the United States and Australia. We also obtained information from officials of the United States federal government involved with aviation and from members of the financial community in New York who assess the financial strength of airports that seek private capital.

13.13 We did not examine departmental activities that were previously covered by the 1982 Report of the Commission of Inquiry on Aviation Safety (Dubin Report). However, we did follow up on the progress the Department had made in addressing Mr. Justice Dubin's main recommendations.

Government Financial Support to Air Transportation

13.14 In 1984-85, government support to meet the shortfall between the costs of the Air Transportation Program and revenues from airlines, passengers and other users was $678 million. The shortfall for 1980-81 and 1984-85 and the percentage increase in net cost for each major component of the Air Transportation Program are set out in the following table. To measure the financial performance of the Program, including government support to air transportation, costs are defined so as to approximate the costs that a commercial operator would normally incur.

Support to Air Transportation: Shortfall by Component
(in millions of dollars)

Major Components	1980-81	1984-85	Percentage Increase
23 Revolving Fund airports	$ 71	$ 107	51 %
Other airports and related services	192	307	60
Contributions to municipal airports	9	43	378
En route navigation services	77	123	60
Regulatory services	61	98	61
	$ 410	$ 678	65 %

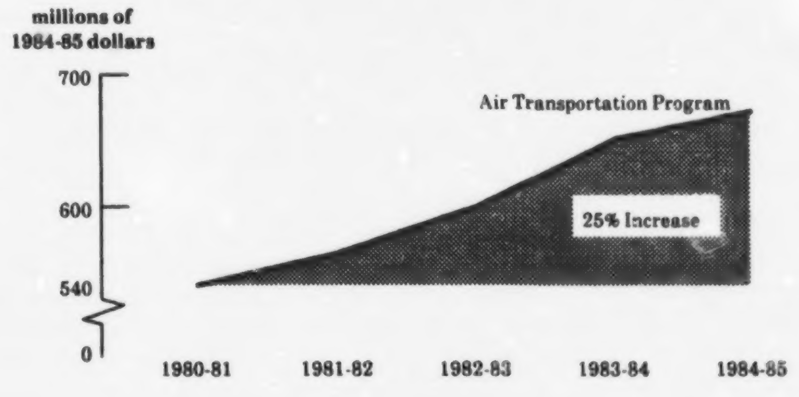
13.15 From 1980 to 1985, taxpayers have borne a heavy burden with respect to air transportation. Cost recovery has dropped from 49 per cent to 44 per cent. System costs increased 51 per cent in the period with only 35 per cent increase in off-setting revenues. After removing the effect of inflation, the net increase in government support was 25 per cent (see Exhibit 13.3).

13.16 There are many reasons for the increasing burden of air transportation costs on the general taxpayer, including the long-term effects on operating and maintenance costs of overbuilding in the 1970s at airports such as Mirabel, Calgary and Halifax. Also, the government's administered price program (6&5), limited CATA's ability to increase revenues in the domestic sector. Nevertheless, a lack of financial discipline with regard to costs was evident from the following:

- lack of targets for the financial results of individual airports and related facilities, or any other cost recovery targets for individual services;
- failure to cut operating expenditures and overheads in spite of reduced revenues caused by a decline in traffic in the early 1980s;
- continued major capital investments in the 1980s despite slow growth in traffic, without obtaining commitments from users of the system on their willingness to pay and without adequate regard to cost recovery objectives;
- applying uniform national levels of service, operating standards and labour practices without sufficient regard to their financial implications;
- continuing expenditures for the benefit of general aviation without appropriate policies, plans or monitoring of costs;
- increasing subsidies to municipal airports without up-to-date eligibility criteria; and
- failure to develop cost accounting data for specific airport functions, thereby inhibiting effective control over costs and the development of an efficient and equitable structure of user charges.

Exhibit 13.3

INCREASING GOVERNMENT SUPPORT TO OFFSET SHORTFALL OF THE AIR TRANSPORTATION PROGRAM
1980-81 to 1984-85



13.17 **The trend of increasing costs for air transportation is likely to continue unless the government injects more financial discipline into its Air Transportation Program. There is cause for concern; all components of the air transportation system show escalating costs even after the impact of inflation is removed.**

13.18 **The major failing is that the economy and efficiency that could be derived through cost recovery have not been achieved. Development and operations have not been tied to any financial or market test. Without the financial discipline that such tests provide, for control of both capital and operating costs, CATA may never achieve the level of economy and efficiency that was the intent of its cost recovery objective.**

13.19 Major new expansion and development programs are under way, such as the Radar Modernization Project ($810 million) and Hamilton Airport Development ($49 million). Such investments are often larger than warranted by the market's apparent willingness to pay. In our 1978 Report we commented favourably on the economic use of capital resources in connection with the projected expansion of the Toronto (now Pearson) International Airport, which was designed to meet clearly established demand. CATA has not consistently followed this approach in subsequent projects, with the result that capital and operational costs at many facilities are high and are not being fully recovered from users.

13.20 We recognize that some government financial support is necessary because it is in pursuit of non-transportation objectives for which aviation users should not be expected to pay. For example, in recent years the Government has decided to provide increased access to certain remote areas, such as the North. However, we were unable to assess the extent to which the rising cost of the system could be fairly attributed to these other objectives, since CATA had not defined precisely what results were expected to be achieved or the related cost. It is our judgement that this weakness limits the usefulness of financial information provided to Parliament.

13.21 Chapter 2 of our 1983 Report, on constraints to productive management in the public service, identified three significant constraints for managers in government. These were: the impact of political priorities on achieving productive management, the many administrative and procedural requirements with which management is burdened, and the few incentives but many disincentives that influence productive management. Our audit found that many of these constraints affect CATA. It is difficult to identify their precise impact on the Air Transportation Program, but there is little question that the competing priorities make it more difficult to hold government managers accountable.

13.22 **The Government should ensure that the financial discipline that would be created by stricter adherence to cost recovery objectives is introduced into the organization, management and operations of the air transportation system with a view to promoting greater economy and efficiency.**

> *Department's response: In response to the Government objectives as outlined in the fall Economic Statement and the May Budget Speech, Transport Canada is developing options for a new management structure for the Federal Airports*

System in Canada. These options will include an evaluation of the financial aspects as well as the potential for increased efficiencies of such a management structure. Work has already begun regarding cost recovery for Air Navigation and Regulatory activities.

13.23 **Specifically, the Department should:**

- **establish financial performance targets, including targets for cost control and revenue maximization, for each program component within the system, and measure performance against these targets;**

Department's response: This is now under way. For example, the Revolving Fund will now be operated on the basis of a financial plan which includes proposed performance targets.

- **reorganize and assign responsibility and authority for financial viability for each operating centre (for example, for individual airports);**

Department's response: The department is increasingly moving in this direction. (See also the response to the recommendation in paragraph 13.22).

- **undertake an overhead reduction program to reduce duplication and overlapping of services; and**

Department's response: The A-Base review completed this year included the identification of any overlapping or duplication of services. It will be further addressed in the current review of the organization of the department

- **implement improvements in efficiency at airports and related facilities through more cost effective labour and maintenance practices.**

Department's response: We agree with this recommendation which will coincide with the aim of the new airport management structure and will be facilitated through the consultative process.

Management of Revolving Fund Airports

13.24 CATA's formal objective for the 23 airports, as reported to Parliament through Part III of the Estimates, is to "develop and operate those international and national airports included in the Self-supporting Airports Revolving Fund in such a way as to recover their costs".

13.25 The Airport Revolving Fund was reorganized in 1979 to address three problems that were identified by the government: the failure to become financially viable, the lack of a clearly defined management control and accountability structure, and lack of credibility with industry with regard to cost recovery. A number of organizational changes were

Exhibit 13.4

AIRPORTS AND ASSOCIATED GROUND SERVICES REVOLVING FUND

Profit (Loss) by Airport

1984-85

Airport	Profit (Loss) per Financial Statements	Adjusted Profit (Loss) with unrecorded costs [1]	Enplaned Passengers [2] (in thousands)	Adjusted Profit (Loss) Per Passenger (in dollars)
	(in thousands of dollars)			
Vancouver	$ 29,264	$ 18,699	3,427	$ 5.46
Lester B. Pearson	60,685	39,135	7,304	5.36
Dorval	8,826	(1,465)	2,767	(0.53)
Calgary	6,373	(4,122)	2,027	(2.03)
Edmonton	1,607	(3,601)	1,051	(3.43)
Winnipeg	(1,670)	(5,523)	1,079	(5.12)
Ottawa	(1,124)	(5,798)	1,010	(5.74)
Halifax	(3,635)	(7,463)	747	(9.99)
Victoria	(2,665)	(3,925)	281	(13.98)
Saskatoon	(3,333)	(4,640)	297	(15.62)
Thunder Bay	(3,250)	(4,472)	207	(21.59)
Regina	(4,951)	(8,116)	288	(26.47)
Quebec	(5,863)	(8,027)	307	(27.89)
Windsor	(2,690)	(3,663)	245	(37.00)
St. John's	(8,691)	(11,111)	99	(45.39)
London	(4,047)	(5,155)	107	(48.39)
Fredericton	(3,424)	(4,236)	87	(48.60)
Saint John	(3,989)	(5,189)	88	(58.81)
Moncton	(5,402)	(6,616)	108	(61.49)
Mirabel	(26,233)	(44,765)	688	(65.11)
Sydney	(4,050)	(5,101)	75	(68.21)
Charlottetown	(3,931)	(5,550)	73	(75.85)
Gander	(12,770)	(16,203)	62	(259.63)
TOTAL	$ 5,037	$ (106,907)	22,422	$ (4.77)

[1] Includes:
- CATA, direction and administration
- Departmental administration expenditures
- Services provided by outside departments
- Interest on net book value of fixed assets.

[2] Counted on embarkation (estimated).

Source: unaudited CATA documents

introduced to strengthen management control and accountability. At the same time, the cost recovery requirements of the Fund were strengthened significantly. In particular, Treasury Board specified that future capital expenditures approved for inclusion in the Fund would be financed by user charges or from the proceeds of the sale of assets, with any shortages provided through interest bearing loans from the Consolidated Revenue Fund. In 1980, Parliament passed the Adjustment of Accounts Act, which placed a statutory limit of $80 million on the total of such loans, further strengthening the need to control costs and generate sufficient revenue to meet future capital requirements without annual parliamentary appropriations.

13.26 Our audit found that the problems that led to the 1979 restructuring of the Fund still exist.

13.27 Although the financial statements of the Fund, prepared by CATA, indicate a small estimated surplus of $5 million for the year ended 31 March 1985, they do not account for all recoverable costs associated with the airports. From the standpoint of full cost recovery, the 23 airports have run a deficit in each year since 1980-81. In 1984-85, we estimate that the deficit was $107 million. This represents a cost recovery rate of 80 per cent. In determining this deficit we included all costs defined by the departmental general policy on cost recovery. These included direct operating and maintenance expenses, all indirect expenses, depreciation, and an amount for the government's interest expenses associated with the capital invested. On this basis, the increase in the deficit since 1980-81 has been 51 per cent. Of the 23 airports, 21 were unable to recover all their costs (see Exhibit 13.4). Many were unable to recover even their operating and maintenance costs.

13.28 In determining the financial results discussed above, assets were depreciated on the basis of historical cost. Although this approach is an acceptable basis for reporting past financial performance, it understates the size of the Revolving Fund's shortfall from a full cost recovery point of view because it does not fully take into account the need to replace aging capital assets from the Fund's own resources. If the airports were to meet future capital requirements largely without annual parliamentary appropriations as the Treasury Board had required, costs would have to be recovered on the basis of the replacement cost of these assets. On this basis, the shortfall in the Airport Revolving Fund in the year ended 31 March 1985 would be even higher (see Exhibit 13.5).

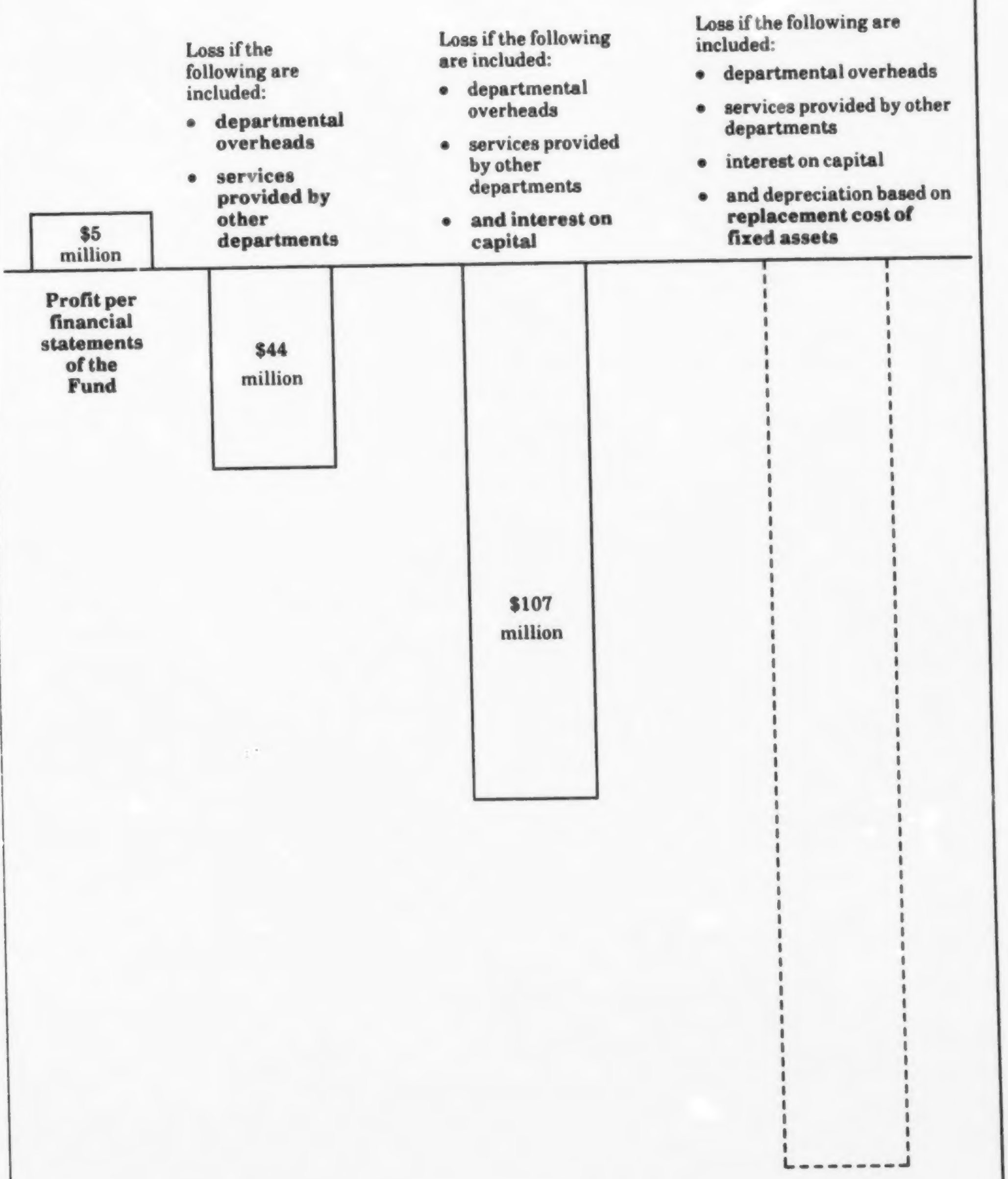
13.29 CATA projected that in 1985-86, the Fund would be unable to operate within its $80 million statutory "line of credit". On 1 April 1985 the Fund was reduced to nine airports in another attempt to achieve financial solvency. It should be noted, however, that dropping 14 airports from the Revolving Fund does not reduce the level of government support to the aviation system as a whole. The shortfall in cost recovery is simply moved to another part of the Program. If anything, these airports may now have less incentive to improve their financial performance. Our audit relates only to the Fund as it existed between 1 April 1980 and 31 March 1985.

Exhibit 13.5

LOSSES IN THE AIRPORTS AND ASSOCIATED GROUND SERVICES REVOLVING FUND

If Unrecorded Costs are Included

1984 - 85



Source: unaudited CATA documents

Financial Planning and Cost Control

13.30 CATA did not develop a commercial strategy or "business plan" to ensure that the financial objective of the Fund would be achieved. The Administration did not set out a time frame over which full cost recovery was to be achieved. Financial targets and controls were not established for capital expenditures, operating costs, and aviation and marketing revenues, so that costs and revenues would be in balance by whatever year CATA designated for full cost recovery. Where projects with low expected rates of cost recovery were approved, they were not accompanied by plans for increased user charges, the sale of assets, or efficiencies in operating practices to balance their adverse effects on the financial health of the Revolving Fund.

13.31 CATA has informed us that in future the Revolving Fund will operate on the basis of financial plans, to be submitted annually to Treasury Board for approval, that will include proposed performance targets and a review of past performance.

13.32 CATA's policies for achieving cost recovery have focused on revenue generation, leaving aside complementary methods of bringing costs and revenues into line, such as adjusting service levels, controlling capital expenditures and overheads, and examining the potential for achieving greater operating efficiencies. As there is a limit to what the market will bear with regard to increased fees and charges, we believe that better cost control would have been important to the successful achievement of CATA's financial objective for the 23 airports in the Revolving Fund. Controlling the cost of airports requires knowing what the various services and functions cost and why. Very few airports have developed appropriate cost accounting systems that highlight costs of major activity centres such as air terminal buildings on a regular basis. In contrast, the U.S. airports we examined maintain detailed cost accounting data for cost control and as information to airlines in determining landing fees and other airport charges.

13.33 Without more specific cost recovery targets and better controls over capital, operating and administrative costs, managers throughout the CATA organization have had little requirement to operate on a "self-supporting" basis. We found evidence that cost recovery has been seen as a secondary consideration rather than as an urgent concern during deliberations over capital investment proposals, level of service decisions, staffing practices, and decisions regarding increased fees and charges.

Acquisition of Capital Assets

13.34 CATA's investment planning process had serious weaknesses which, in our opinion, led to a pattern of investments that had little hope of recovering their costs and weakened management's ability to plan the 23 airports and associated air navigation services in the Revolving Fund as a financially self-supporting system. Many of these investments involve expansion of air terminal buildings and associated facilities that is not related to safety.

13.35 Over the period 1980-81 to 1984-85, CATA spent a total of $410 million on capital projects at Revolving Fund airports alone. We found that CATA frequently approved projects that were expected to fall short of full cost recovery. We examined five projects approved over the period with a combined lifetime cost of $109.8 million, as shown below. Our concern is with the scale and timing of the investments, not with the control over construction costs associated with the facilities acquired.

13.36 Each of these projects is projected to achieve less than full cost recovery. (Projected revenues exclude allocated receipts from the tax on air transportation tickets. Allowance for such receipts could reduce projected losses from $70 million to $49 million.) Such losses contribute directly to the Revolving Fund shortfall, because although the principle of cross-subsidization allows for some projects that do not recover costs, the five projects that we examined were not accompanied by plans for compensatory actions elsewhere in the Fund that would offset the shortfall.

Estimated Financial Results for
Five Capital Projects
(at present value)

(in millions of dollars)

Project	**(a) Projected Costs**	**(b) Projected Incremental Revenue**	**(b-a) Projected Loss**	**(b/a) Cost Recovery (per cent)**
Charlottetown air terminal building	$ 6.6	$ 1.7	$ (4.9)	25.8
Charlottetown parking lots, crosswind runway, tower, and other airside developments	25.0	.6	(24.4)	2.4
Winnipeg air terminal building	27.2	15.2	(12.0)	55.9
Ottawa air terminal building	44.7	22.0	(22.7)	49.2
Thunder Bay general aviation area development	6.3	.7	(5.6)	11.1
All projects	**$ 109.8**	**$ 40.2**	**$ (69.6)**	**36.6**

13.37 **Levels of service.** We found that CATA made decisions on capital projects on the basis of predetermined levels of service without fully assessing their financial implications. Air terminal buildings, for example, were expanded once they fell below, or were expected to fall below, CATA's nationally uniform space standards. Although such standards provide a useful means of identifying potential crowding at individual airports, CATA did not consider modifying the scale of expansion projects in light of projected financial losses.

13.38 **Users' willingness to pay.** CATA did not fully assess the airlines' ability and willingness to pay the full costs of proposed aviation investments. Rental rate agreements with airlines for their use of ticket counters were not secured prior to the approval of the Ottawa and Winnipeg terminal building projects. More recently, CATA has established a policy of obtaining certain commitments prior to approval. However, even where airlines agreed from the start to pay higher rentals for their use of expanded air terminal buildings (such as in Charlottetown), charges were designed to recover only the cost of the airlines' counter space and other areas provided for their exclusive use. Such space accounts for only a portion of the total area in an airport. These charges are therefore insufficient to cover the building's capital and operating expenses, even after other revenues, such as from restaurants and other concessions, are taken into account. CATA does not negotiate increases in landing and other fees with airlines, before investments are made, to determine whether users are willing to pay for the increased cost of common space, for which costs should also be recovered.

13.39 A commercial orientation geared to users' willingness to pay is achieved at many U.S. airports. Contractual arrangements by which airlines agree to cover any revenue shortfalls give airlines the opportunity, during the planning stage, to reject or instigate a re-examination of capital projects that would entail significant increases in the rates and fees they pay for the use of airport facilities. This arrangement is also an important financial control; it protects taxpayers from the higher taxation that would be needed to finance airport losses.

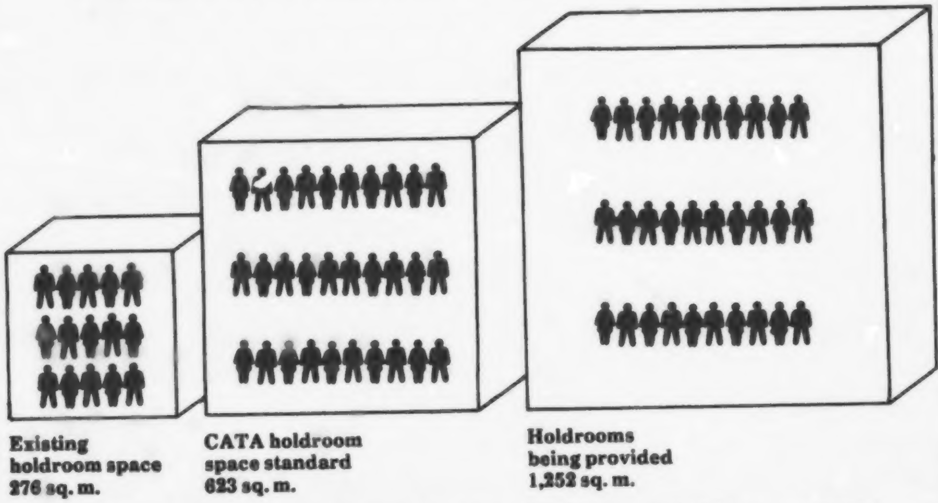
13.40 Failure to consider cost recovery when establishing levels of service and the lack of adequate precommitments from users have contributed to overbuilding in air terminals. The Department is currently expanding terminal facilities at Ottawa at a cost of $48 million. CATA has a set of sophisticated planning techniques for determining the size of air terminal buildings. However, we found a deviation from appropriate standards that resulted in preboarding waiting rooms that were double the size required now or in the near future (see Exhibit 13.6). This additional area represents an extra capital cost of approximately $890,000. CATA informed us that the excess space was requested by the airlines. However, no commitment was obtained to recover the excess costs from them, no analysis was carried out to assess the implications for the Fund of the shortfall that would result from providing the additional space, and no plans were developed to offset the excess cost by increasing fees, selling surplus assets or other actions.

13.41 Similarly, we found that facilities at Regina Airport were oversized in relation to CATA's own standards, resulting in extra capital costs of approximately $1.5 million. Such increases in size also raise operating and maintenance costs over the life of the building.

13.42 We identified the overbuilding problem in our 1978 government-wide review of regard for economy in the acquisition of capital assets. In paragraph 19.100 of our 1978 Report, we reported that the Department went ahead with plans to build a new air terminal building at Calgary International Airport without agreement from air carriers to pay charges that would recover costs. We expressed the view that reaching an agreement that would provide for cost recovery prior to the start of construction was essential to ensure a concern for economy on the part of airlines and lead them to discourage any unnecessary construction. In the case of Ottawa and Regina, we believe that in not obtaining a commitment from airlines to pay for the added space, CATA has again displayed lack of due regard for economy in the acquisition of these assets.

Exhibit 13.6

EXPANSION OF OTTAWA INTERNATIONAL AIRPORT



🚶 = approximately 20 passengers/hour. Peak-period traffic is currently 300 passengers/hour and will be a maximum of 625 passengers/hour for the planned life of the facility.

This departure from standards will cost CATA almost $1 million.

13.43 **Analytical methodology.** We found inconsistencies in the way CATA analysed prospective investments that made it impossible either to relate the financial implications of individual projects to the system-wide full cost recovery objective of the Revolving Fund or to inform Treasury Board of these implications. The prevalence and significance of inconsistencies and errors in the information presented to decision makers lead us to believe that long-term financial implications have not been a major concern of management in the acquisition of capital assets.

13.44 The first of these deficiencies relates to cost recovery analysis. Although potential cost recovery was analysed for some prospective capital projects such as air terminal buildings, no analysis was carried out for others, such as the traffic control tower at Charlottetown, which should recover costs under CATA's policy, and the Thunder Bay commercial area expansion. This illustrates CATA's inadequate consideration of the full implications of its investment decisions for the financial performance of the Airports Revolving Fund.

Artist's conception, courtesy Transport Canada

New $30 million Regina Air Terminal Building: oversizing led to excess costs of $1.5 million (see paragraph 13.41).

13.45 Second, in its analysis of cost recovery CATA did not allocate certain aviation revenues to air terminal building projects in a consistent manner. For example, in calculating incremental revenues associated with the proposed enlargement of the Winnipeg air terminal building, revenues from the air transportation ticket tax were not included. However, they were included in the financial appraisal of the Ottawa air terminal expansion project. Whether such revenues are included or not has a significant effect on determining the financial viability of a project. If ticket tax revenues are included for Winnipeg, the projected loss is $4 million; if they are excluded, the projected loss is tripled to $12 million.

13.46 Third, CATA used several different discount rates in different projects for computing the financial return associated with prospective investments, making it impossible to compare prospective projects on a like basis. Treasury Board has specified that a benchmark 10 per cent real rate be used. The Winnipeg investment analysis as an example, used in error rates lower than 10 per cent, thereby understating potential losses.

13.47 Fourth, we found that CATA overstates the potential for improved cost recovery associated with certain proposed investments by attributing to them revenues that would have accrued to the Air Administration irrespective of the project. In the case of the Ottawa terminal building expansion, CATA told the Treasury Board that the airport's cost recovery rate would approximately triple as a result of the project. This assumed, however, that without the expansion any potential growth in traffic after 1984 would be eliminated by crowding in the terminal building. There is ample evidence from experience at Pearson and Dorval that some additional crowding does not lead airlines and passengers to curtail their use of airports.

13.48 We also found computational errors that led to an understatement of potential losses in a number of instances. For example, in estimating the additional revenues associated with the Charlottetown air terminal building project, analysts significantly overestimated potential return on investment by inadvertently attributing to the expansion air transportation tax receipts that the airport already receives. Projected revenues were overstated by $5.8 million. For the Winnipeg air terminal building project, we found errors in calculating the present value of future revenues and costs. Had the calculation been correct, CATA's projected $6.2 million profit would have been reported as a $4.6 million loss. Such computational errors remain undetected in spite of elaborate management systems and controls introduced in the late 1970s. Thus it would appear to us that an accurate and full assessment of long-term financial implications for the taxpayer has not been an overriding concern of management.

Airport Operations and Maintenance

13.49 Airport operations absorb the lion's share of annual expenditures of aviation authorities throughout the world, and CATA is no exception. For the year ending 31 March 1985, operating and maintenance expenses of Revolving Fund airports were about $280 million, or about 52 per cent of the Fund's total expenditures. Hence, economy and efficiency in maintenance practices are critical considerations. We examined the cost of three major activities – namely maintenance of facilities, provision of airport policing and security services, and provision of crash, fire, and rescue facilities and services.

13.50 We compared three Revolving Fund airports with three similar U.S. airports selected in consultation with CATA. In two of the three comparisons, costs of operating the CATA airports were higher, and in the third they were similar. In particular, our tests indicated that the number of person-years used by U.S. airports is 30 per cent to 40 per cent less than at Canadian Airports, for the three activities we examined, as shown below.

Comparison of Airport Person-years (PYs)

Person-year Ratios	Three U.S. Airports	Three CATA Airports	% Lower in U.S.
Facility maintenance PYs per 100,000 square metres of airport area	10.6	17.6	40
Policing and security PYs per million enplaned and deplaned passengers	8.2	11.7	30
Crash, fire, and rescue PYs per 10,000 aircraft movements	1.3	2.0	35

SAUVETAGE
Aéroport

Productivity. Flexible work assignment, as shown above at the Gatineau, Quebec municipally-owned airport, is not practised in airports owned and operated by the federal government: reduced productivity results from lack of cross-utilization of labour at federal airports (see paragraph 13.53).

13.51 Although these findings are based on results for certain activities at three individual airports, our more general comparative analysis of all operating and maintenance costs with 25 other U.S. airports – both large and small – supports our conclusion that costs per passenger are higher in Canada.

13.52 We recognize that there are substantial differences in the ownership and the financial and management structures of CATA and U.S. airports. A key difference is that U.S. airports' survival is based on financial discipline and on their ability to borrow funds in the bond market for capital requirements. They then recover costs from airport users and repay the debt. In contrast, CATA has provided facilities and services without the same bottom-line consideration or the requirement to repay capital obtained through parliamentary appropriations.

13.53 **Labour utilization.** CATA airports hire most employees for specific maintenance functions. Employees who are underutilized in their specific function are not used for other tasks even though the level of service would not be adversely affected. In the United States, extensive cross-utilization of employees has made it possible for airports to operate with smaller maintenance labour forces and consequently lower costs. For example, at one U.S. airport we visited, employees who normally work as carpenters and painters operate snow removal vehicles when needed. Employees who normally work as plumbers perform routine mechanical and electrical maintenance tasks when needed. Such cross-utilization is also currently practised at certain Canadian airports that are not operated by CATA.

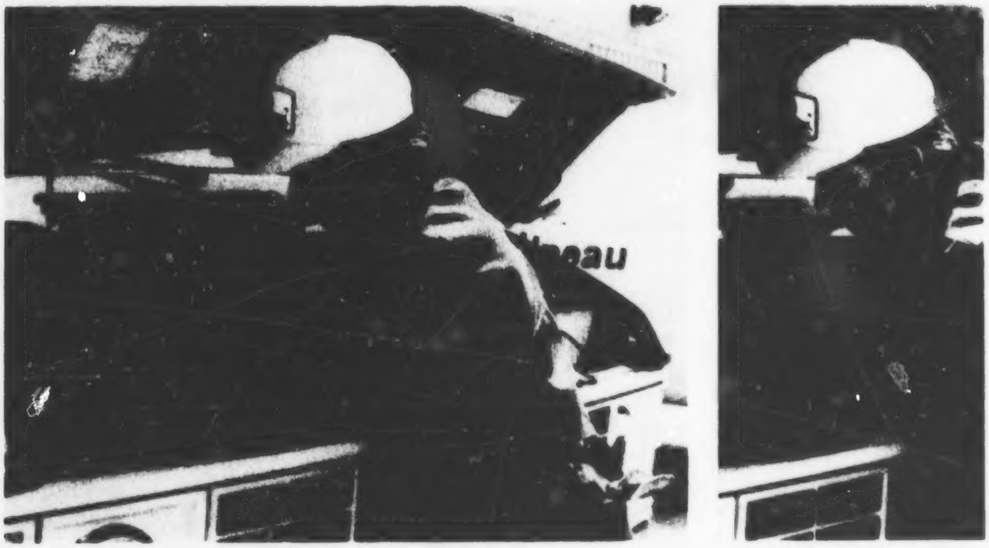
13.54 We also noted high costs for airport policing and security services. These high costs have already been identified by CATA in consultation with the RCMP and the airlines. An examination of the security risks was under way at the time of our audit.

13.55 In the area of crash, fire and rescue (CFR) services, we found CATA operating costs per aircraft movement to be higher than in the United States. This is partly explained by the fact that CATA airports generally have lower traffic volume. However, there is still room for improved productivity, as illustrated below.

13.56 Firefighters at certain CATA airports have free time amounting to an estimated 30 per cent of their shift hours. Although the nature of emergency work naturally leads to long periods of waiting, at the U.S. airports we visited, the CFR crew members were occupied to a greater extent, carrying out runway condition inspections and security patrols of airfield and ramp areas. We understand that CATA is in the process of reviewing CFR job descriptions to make possible more productive use of their time.

13.57 **Maintenance procedures.** We examined the Airports Maintenance Management System (AMMS), a management tool for planning, budgeting, scheduling and controlling maintenance work at airports. Although we agree with the objectives and general design concepts of this system, there are deficiencies which, if not corrected, could lead to overstaffing. After seven years of developmental work, this system still has weaknesses.

13.58 These weaknesses include excessive frequencies specified for many preventive maintenance tasks, resulting in higher workloads than necessary, inefficient maintenance methods prescribed for some tasks, and excessive amounts of time allowed in most task time standards.



Canadian airports
49 hours

U.S. airport
20 hours

CATA standards allow 49 hours a year for preventive maintenance on an automobile driven 32,000 kilometres a year by maintenance personnel. Only 20 hours a year are allowed for preventive maintenance on a similar vehicle at one U.S. airport we visited (see paragraph 13.61).

13.59 At Dorval airport, if AMMS standards were applied, a need for 62 person-years for building maintenance would be identified. However, we were told that 24 person-years would have been adequate in the estimation of site managers, based on their experience and knowledge of local conditions. At Halifax, the same kind of calculations would show a need for 40 person-years in the building and mechanical trade, whereas 11 person-years would be sufficient in the opinion of the site supervisors.

13.60 We carried out work measurement studies to check the reliability of AMMS standards. In 25 of the 30 tasks we checked, the AMMS standards allowed considerably more time than we found to be necessary. These times were an average of 128 per cent greater than required.

13.61 We also compared preventive maintenance standards with those in place in comparable U.S. airports. According to AMMS specifications, an automobile driven 32,000 kilometres a year is allowed about 49 hours a year for preventive maintenance. In contrast, at one U.S. airport that we visited, only 20 hours a year are allowed for maintaining the same kind of vehicle. The AMMS standards allow 199 minutes per occasion for preventive maintenance of an automatic door; the U.S. airport allows only 36 minutes per occasion for the same type of maintenance task on a similar door.

13.62 **Performance measurement.** Measuring and reporting performance of airports is an important step in improving efficiency and effectiveness. CATA does not at present have a system in place for regular monitoring of trends in operating costs of individual airports or other facilities or making comparisons among them. The absence of clearly stated financial goals aimed at improving the bottom-line of individual airports and associated facilities has inhibited the development of such systems. Appropriate performance ratios such as cost per passenger, revenue per passenger, cost per square metre of airport space and cost per aircraft movement, are not used to identify increases or unfavourable trends in costs so corrective action can be taken. Also, CATA has set levels of service without first adequately measuring travellers' satisfaction with current services.

DUTY FREE
HORS-TAXES

Courtesy Transport Canada

Locating shops and restaurants away from passenger traffic inhibits impulse buying and reduces CATA revenues. At the international airport shown above, shops and restaurants are on the upper level (see paragraph 13.65).

Airport Revenues and Marketing

13.63 CATA draws revenues from aviation fees and charges, such as landing fees, and from non-aviation sources such as gift shops, land rentals, restaurants, parking and other activities grouped generally under the heading of marketing. Marketing revenues represent a major portion of total CATA receipts (over 28 per cent in 1984-85) and offer substantial potential for enhanced cost recovery. We found that marketing objectives were not interpreted consistently by management, that responsibilities for marketing overlapped, and that opportunities for revenues had not been fully explored.

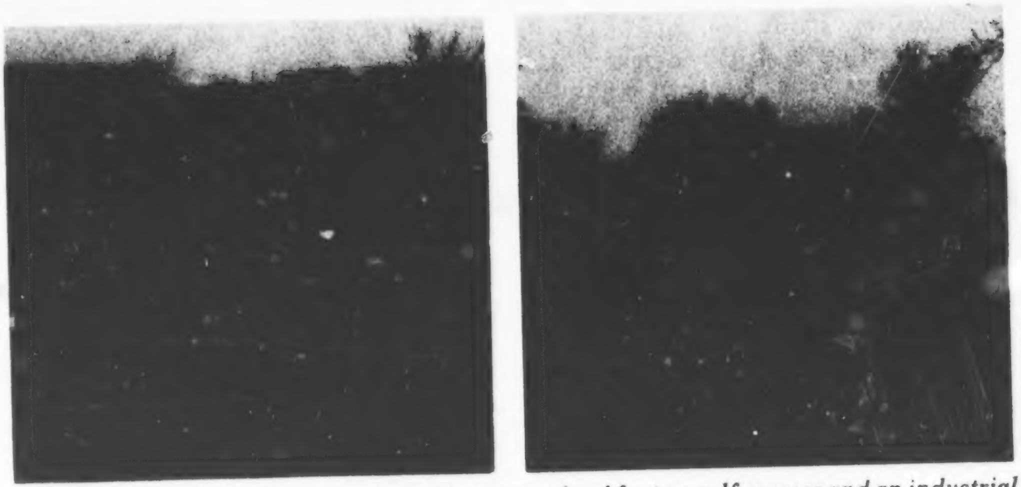
13.64 **Interpretation of marketing objectives.** CATA's policy on maximizing revenue, necessary for achieving the Revolving Fund's financial objectives, has not been clearly communicated in terms of specific marketing objectives and targets for each airport. This has resulted in varying attitudes to maximizing revenue generation at different airports.

13.65 CATA's own internal studies have indicated that its air terminal building planners and airport managers, unlike marketing staff, do not give adequate priority to revenue considerations in planning the expansion or modification of air terminal buildings. For example, both at Calgary and Mirabel, most concessions are located on a separate floor in the terminal building, away from the regular flow of passenger traffic, reducing the opportunities for increased revenues through impulse buying. Current renovations at Dorval will result in the restaurant being moved farther from passenger traffic than at present, indicating that insufficient priority is still being given by building planners to revenue maximization.

13.66 **Responsibilities for marketing.** CATA's multi-layered management processes hinder the efficient operation of the airport marketing function. The marketing roles of headquarters, regional offices and airports overlap. Contract documents for rentals and concessions must often be forwarded by the airports to the regional offices and headquarters for review and approval. This decision-making process, which may also involve central agencies, causes delays in making final decisions on awarding contracts that can result in loss of significant amounts of revenue. In paragraph 15.7 of our 1981 Report we commented on the need to improve control in this area.

13.67 A recent delay in approving the tender specifications and awarding the contract for the food and beverage concession at Dorval airport will result in a loss of about $200,000 in revenue. In another case at Dorval, the duty-free gift shop was closed for over a year because of the delay in awarding a new contract, resulting in lost revenue of about $700,000.

13.68 **Missed revenue opportunities.** Although there were some exceptions, we found that revenue opportunities for airport lands have not been pursued. Exceptions included Dorval airport's agreements for land for two golf courses and an industrial park. Outdoor advertising, also a good source of revenue, has been developed at Calgary and Edmonton. However, none of the other CATA airports we visited had developed these types of revenue sources or other sources such as shopping centres, conference centres, and office complexes. Commercial developments are an important means by which some U.S. airports improve their financial performance.



Productive use of airport lands at Dorval. Leasing land for two golf courses and an industrial park at market rents is a good source of revenue (see paragraph 13.68).

Inappropriate land use at Thunder Bay. Rents were allowed to drop 46% from 1976 to 1982, encouraging use at bargain rates. The resulting congestion led CATA to embark on a $7.4 million expansion, which will recover only 11% of its cost (see paragraph 13.71).

13.69 We were informed that CATA had proposed that the building of hotels at Halifax, Dorval, Pearson and Vancouver airports be allowed but that these proposals had been indefinitely deferred. We estimate that shelving these projects costs the airports a total of more than $3 million a year in lost potential concession revenues. Such revenue losses must be made up by the general taxpayer.

13.70 Similarly, long-standing efforts to set up arrival duty-free stores at Mirabel, Dorval, Pearson and Vancouver Airports have not yet succeeded. Also, departmental negotiations with the United States to arrange for cash-and-carry duty-free stores at major international airports had not been concluded at the time of our audit.

13.71 Marketing personnel establish rental rates for land use such as private plane parking at public airports. We found cases where management allowed these rates to lag behind the rate of inflation. At Thunder Bay Airport, for example, rents were allowed to decline by 46 per cent in real dollars between 1976 and 1982. In addition to foregone revenue, low rents can create an excess demand for space and thus for capital investment. Over the 1976 to 1982 period, the demand for space among private plane owners at Thunder Bay increased, resulting in congested and unsafe ground movements of planes, fuel, trucks and people. This, in turn, led CATA to expand the airport facilities at a cost of $7.4 million, an outlay that might have been delayed or avoided had rents in earlier years kept pace with inflation. It is estimated that users will cover through rental payments about 11 per cent of the $7.4 million projected cost.

13.72 **Overheads.** Overhead costs associated with the development, management and administration of CATA airports are high. This is mainly due to the multiple levels in the organization. Although CATA charges the Airports Revolving Fund 30 per cent of direct operating expenses for the expense of its regional and Ottawa headquarters, even this amount fails to account for all overhead costs. For example, we estimate that the Department of Transport provides some $23 million in overhead services to the Revolving Fund airports annually, an amount that is excluded from CATA's 30 per cent charge.

13.73 The cost of administrative staff at CATA headquarters and at the regional level adds considerably to the problem already created by the low level of cost recovery. For example, CATA provides functional guidance and specialist support services to airports for maintenance, using 100 specialists at headquarters and another 100 employees at the regional offices, costing about $6 million a year. However, we recognize that some of these specialists devote a portion of their time to non-maintenance matters such as design and construction standards, policy development, and so on.

13.74 Studies carried out by CATA have recommended a decentralized organization with lower overheads, allowing for more authority and accountability for decision making at airport sites. As one such study noted,

> ... because of the multi-tiered structure, from the airport upwards in the organization, a number of functional layers – each with its complement of specialists and advisory personnel – become involved in almost all issues of airport operations and development ....

13.75 In conclusion, we believe high airport and overhead costs call for a re-examination of the financial management approach, maintenance practices, and labour utilization at CATA airports. The Department has announced that a new management structure for Canadian airports will be introduced. We were informed that this change is intended to deal with the issues raised.

General Aviation

13.76 CATA operates the air transportation system in such a way that it provides a substantial subsidy to general aviation users – generally smaller planes used by firms and individuals for business and recreation. These account for more than half the take-offs and landings at the 23 airports in the Revolving Fund. The amount of this subsidy, however, has not been determined by CATA. In the United States, disclosure of costs and revenues attributable to general aviation has been a statutory requirement since 1970. Despite requests from Treasury Board, CATA has not established a clear policy for recovering costs that are incurred for the benefit of this special user group.

Courtesy Transport Canada

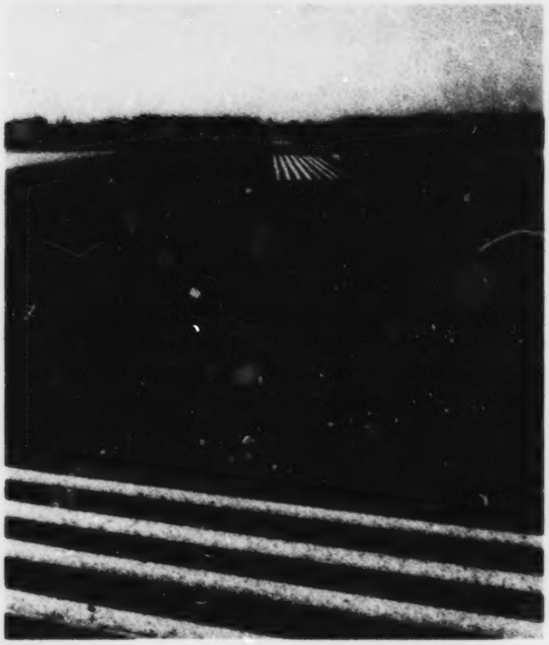
Revenues from recreational and business planes cover less than a third of the air navigation costs that can be attributed to general aviation (see paragraph 13.77).

13.77 To gain an understanding of the level of cost recovery from general aviation, we looked at the airport in London, Ontario, one of the smaller airports in the Revolving Fund. We found that a total of $200,000 is spent annually for air traffic control staff that would not be needed without general aviation. General aviation users pay fees and charges in the amount of $61,000 annually, a cost recovery rate of a little over 30 per cent. Adding in other costs at London, such as the provision of taxiways used exclusively by general aviation, reduces the cost recovery rate of this sector to about 16 per cent. We noted that this level of cost recovery is no worse than that reported in the United States.

13.78 The low level of cost recovery from general aviation is significant for three reasons: first, it adds to the Revolving Fund deficit. Second, attempts to achieve full overall cost recovery while continuing to subsidize general aviation would mean that other user groups, primarily airlines and passengers, would have to pay more than their share of airport costs. And third, low landing fees and other charges encourage general aviation users to make more use of certain already crowded airport facilities than they would with the higher fees that would be consistent with full cost recovery.

13.79 The absence of a clear cost recovery policy for general aviation has led to contradictory actions by CATA. For example, the heavy use of Vancouver International Airport by general aviation aircraft, perceived as a safety and congestion problem, led CATA to reactivate an airport for their exclusive use at nearby Boundary Bay at a cost of $10 million. Recently, however, the landing fee for general aviation was eliminated at Vancouver, although an increased fee could have been an important factor in encouraging general aviation users to move to reliever airports such as Boundary Bay.

13.80 While CATA has no comprehensive policy on cost recovery from general aviation users, it has specified in planning documents for certain airports that general aviation is to be served at CATA airports only to the extent that capacity exists. New construction on behalf of general aviation would therefore not be permissible. By not applying this policy consistently, CATA has added to Revolving Fund costs without providing compensating revenues.



Charlottetown 5,000-foot cross-wind runway. Built to the requirements of recreational and business planes, the new runway was not required for commercial aviation. This is contrary to the objective of Charlottetown Airport to serve general aviation only to the extent that capacities are not exceeded (see paragraph 13.81).

13.81 For example, the Charlottetown 5,000 foot cross-wind runway project was justified largely on the basis of benefits to general aviation users. However, the stated role of Charlottetown Airport is to support commercial air services; general aviation is to be served only "to the extent that airport system capacities are not exceeded". CATA approved the construction, with no fee increases, of the new cross-wind runway at Charlottetown even though, at the time, it could only be justified for aircraft with cross-wind tolerances of 10 knots – that is, general aviation aircraft.

13.82 For the management of the Airport Revolving Fund, the Department should develop a business plan that shows how the full cost recovery objective of the Self-supporting Airports and Associated Ground Services Revolving Fund can be met and maintained.

> *Department's response:* *Implemented with the restructuring of the Revolving Fund, 1 April 1985.*

13.83 The Department should ensure that decisions on capital investments and levels of service take into account the ability and willingness of users to pay.

> *Department's response:* *This is now reflected in the operation of the Revolving Fund.*

13.84 The Department should develop a comprehensive policy covering expenditures on general aviation and disclose to Parliament the costs, revenues and benefits associated with such special user groups.

> *Department's response:* *A general aviation policy is under development. As the cost accounting system is expanded, it may be possible to provide separate cost and revenue data for general aviation at revolving fund airports.*

Management of Other Airports

13.85 CATA owns and operates 71 airports other than those financed through the Self-supporting Airports Revolving Fund. Although these airports serve only an estimated 10 per cent of all commercial airline passengers, they account for more than 45 per cent of the government's financial support of the air transportation system. None of the airports recovers even its operating expenditures. Their overall cost recovery rate is 15 per cent.

13.86 The stated objective for this system of airports, as reported to Parliament in Part III of the Estimates, is:

- to attend to the development and operation of a network of regional and local airports that enables all areas of Canada to have reasonable access to Air Transportation; and

- to recover costs from airport users to the extent feasible.

13.87 We reviewed CATA's financial planning for these airports, the process of acquiring capital assets and airport operations. As well, we reviewed the planning and management of CATA's investment in lands at Pickering, Ontario.

Financial Planning

13.88 Certain transportation expenses may not be fully recoverable from users either because of low traffic volume or because they have been made to promote objectives such as

regional or other social development. CATA policy requires that where there are departures from the objective of commercial viability, the benefits and costs involved should be identified and the relevant additional costs assumed by the government.

13.89 A major failing is that CATA has not defined the extent to which costs are to be assumed by the government in pursuit of non-transportation objectives for these airports and the extent to which costs must be assumed by users. Part III of the Estimates does not offer Parliament full information on what the non-transportation objectives are, to what extent they are being met, and how much they are costing Canadian taxpayers.

13.90 Consequently CATA is unable to establish targets for an appropriate level of cost recovery. This is a major weakness in the financial management of the Program. As a result, there is little accountability or incentive to reduce costs or increase revenue. Furthermore, there is inadequate meaningful information with which to assess the financial viability of individual facilities and services.

13.91 An illustration is the $49 million expansion of Mount Hope Airport in Hamilton, Ontario. Although this investment was projected to lose $16 million, we could not find any analysis of the benefits associated with the cost to be assumed by the government.

13.92 Similarly, at Hare Bay, Newfoundland, CATA constructed a new $12 million airport to replace St. Anthony Airport, only 23 miles away. No cost-benefit or cost recovery analysis was carried out to justify the investment. We were informed by CATA staff that the airport was built to meet national operational standards. There was no attempt to determine which costs users should pay, and hence no attempt to rely on user willingness to pay as the test of true need. In fact, we were informed that the Province of Newfoundland did not agree that the community needed a new airport.

Acquisition of Capital Assets

13.93 We examined capital projects at Hamilton, Ontario, Boundary Bay, British Columbia, and Springbank, Alberta, with a total capital cost of $61 million. Many of the weaknesses we identified are similar to those we found in the Revolving Fund airports.

13.94 **Forecasts of traffic.** In general, we found that CATA used state-of-the-art forecasting techniques. However, the management process for planning the airport developments we examined was insensitive to reduced needs as reflected in declining traffic. Investments were approved without assessing whether the traffic forecast on which the need for the project was initially based remained valid at the time the request for funds was submitted to Treasury Board (see also Case Study 1).

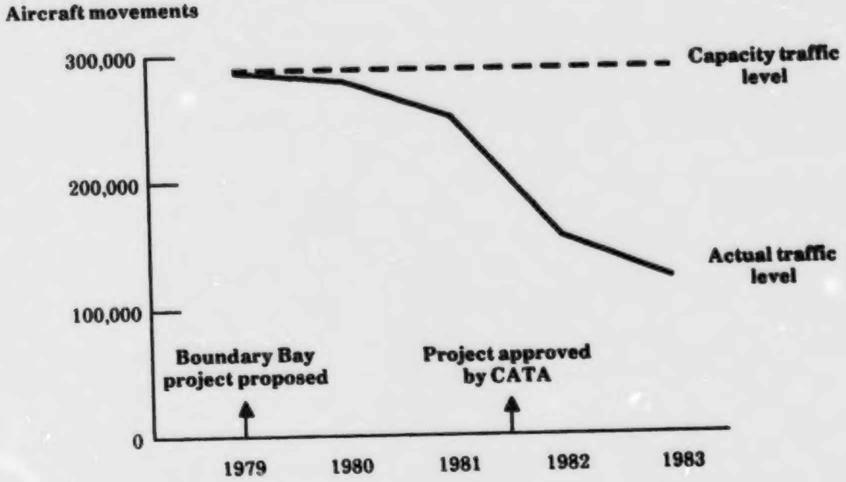
13.95 For example, the reactivation of Boundary Bay Airport was proposed in 1979 because of the congestion at nearby Vancouver International Airport and its existing reliever, Pitt Meadows Airport. In 1979, Pitt Meadows was close to capacity. Final project approval for Boundary Bay was not given by the Treasury Board until December 1981.

However, beginning in 1979, traffic volume at Pitt Meadows declined, at first slowly and then quite dramatically during 1982 as shown in Exhibit 13.7. This decline in traffic eliminated the immediate need for Boundary Bay. Nevertheless, the project went ahead in 1982 at a cost of $10 million. The annual cost of carrying Boundary Bay is $2 million. In 1984, total traffic for the two airports (Pitt Meadows and Boundary Bay) was only two-thirds of the capacity of Pitt Meadows alone.

Exhibit 13.7

DECLINE IN TRAFFIC AT PITT MEADOWS AIRPORT

Was Boundary Bay Airport ($10 million) Needed in 1982?



Traffic at Pitt Meadows Airport near Vancouver, predicted to stay at capacity levels, has declined since 1979, when a reliever airport at nearby Boundary Bay was proposed to supplement it.

13.96 **Inadequate commitment from users.** For this group of airports, as for the Revolving Fund airports, CATA often did not get commitments from users to bear any of the cost. Examples were found at Hamilton (see Case Study 1) and Springbank, a reliever airport for Calgary.

13.97 The $1 million extension of the Springbank runway was designed to ensure that CATA's national runway standards were met. CATA claimed that the existing runway created an inconvenience for some 22 private aircraft owners who were operating with take-off weight restrictions during certain times of the year. No attempt was made to find out from them whether the inconvenience they faced was sufficiently troublesome that they were willing to contribute financially to the runway extension. These users had not requested the extension and, even though it involved no cost to them, they pointed out that they did not feel there was an immediate need for the project. Hence, the project was justified on the basis of the need to meet national level of service standards.

Boundary Bay control tower provides a high standard of amenities but does not recover any of its costs from its users. In the U.S., private sector contracts to build and operate towers at some small airports result in modest, efficient facilities (see paragraph 13.99).

13.98 **Private sector alternatives.** CATA's own policy requires "minimization (of) federal involvement in those areas that ... can be more efficiently provided by ... the private sector". Despite this policy, private sector alternatives were not fully explored in certain capital projects. In particular, inadequate attention was given to the alternative of relying on municipal or private airports for services CATA is providing for general aviation. Also, CATA has not examined the possibility of private sector operation of control towers at smaller airports.

13.99 According to United States Federal Aviation Administration officials, the private sector approach has substantially reduced operating and capital costs at certain smaller airports. Much of the saving could result from less luxurious facilities; in Canada control towers are built to CATA's uniform national standards. The three storey control tower at Boundary Bay contains two pairs of washrooms, a full kitchen and living room and a passenger elevator for the eight people who work each shift at this location. This tower facility does not recover any of its costs directly from its users. Recent literature on the United States experience suggests that savings due to lower staffing levels, etc. may be possible when these operations are contracted to the private sector.

Airport Operations

13.100 Many of the concerns about operations that we identified at the Revolving Fund airports – dealing with maintenance procedures, labour utilization, overheads, and performance measurement – apply to some extent to all airports. In addition, we noted high costs in the area of crash, fire and rescue services.

13.101 **Crash, fire and rescue services.** CATA's criteria for determining which airports should have crash, fire and rescue facilities are less stringent than those used in other countries. At the time of our audit, CATA was reviewing those criteria and comparing them with criteria used in other countries to determine whether savings can be made without sacrificing safety. At present, all airports with regular air carrier service are eligible for CFR, irrespective of the number of aircraft movements or passengers involved. The services are provided at 132 Canadian airports.

13.102 **For "other" airports, outside the Revolving Fund, the Department should:**

- **distinguish between the costs to be assumed by the government in support of transportation objectives and those to be recovered from system users;**
- **establish financial targets for cost recovery and define managerial accountability for meeting them; and**
- **identify major expenditures in support of objectives other than transportation, state the expected results and related costs of meeting these objectives, and report to Parliament the extent to which the objectives are met.**

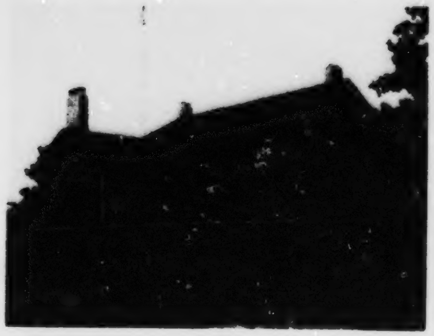
Department's response: *The Cost Recovery Policy and the Operational Planning Framework which are under development will assist in addressing these issues.*

Pickering Lands

13.103 Carrying non-productive assets such as the Pickering, Ontario site has had an adverse impact on the costs of the air transportation system. This 7,527 hectare (18,600 acre) site was acquired by expropriation on 30 January 1973 for the purpose of building a new international airport for Toronto. The new facility was to be constructed with four runways and with the capacity to handle an annual volume of 40 million to 50 million passengers by the year 2000.

13.104 Construction on the first phase started on 23 September 1975 but was discontinued soon after when the provincial government announced it would not provide certain essential services for the airport. This was the beginning of the end of Pickering Airport as originally conceived.

13.105 We examined CATA's investment in the 7,527 hectares of Pickering lands to assess whether the lands were being held for transportation purposes. We also estimated the cost of carrying the investment to date, and reviewed the property management procedures in place.



Rents for a sample of 40 Pickering properties owned by CATA, including these 5, were found in an independent appraisal done for CATA to be 20 per cent below market rates (see Paragraph 13.108).

13.106 There are no plans at this time to build a major airport on the site in this century. Although CATA's planning documents indicate that there is a need for general aviation facilities in the area, the amount of land required would be substantially less than the present holdings. At the time of our audit, CATA had not made any firm decision on selling all or part of the land it holds.

13.107 CATA is unlikely to recover its original investment of $140 million at Pickering. The cost to the taxpayer, including interest cost on the original investment, is estimated at over $275 million. CATA believes that the present realizable value of the land and properties does not exceed $80 million and could be even less on a quick-sale basis.

13.108 Our review of the management of certain residential properties on the site revealed that the rental income on many properties is below market values. CATA is barely recovering the operating costs of many residential properties. Also, for the sizeable acreage let for agricultural purposes, the rental income is less than the interest cost on the funds that could be realized by selling the land. CATA informed us that since the property was not purchased as a rental property, it believes that it was not practicable to offset capital costs as well as operating costs from related revenues.

13.109 To improve the recovery of capital and operating costs associated with any portion of the site that CATA decides to hold indefinitely, it would be essential to increase rents to market levels and enter into longer-term leases than in the past. We recognized that such initiatives would have to be taken in consultation with the Province of Ontario, which owns large portions of adjacent lands.

13.110 In addition to Pickering, we noted that land owned by CATA not needed for transportation purposes and not earning revenue exists at a number of airports such as Halifax, Calgary and St-Hubert. The cost of carrying such land includes grants in lieu of taxes. We did not find any serious effort on the part of CATA to arrange for the sale of the idle land or to transfer its ownership to the Department of Public Works. Idle land has an adverse impact on the financial performance of the Air Transportation Program.

13.111 **The Department should develop and disclose a clear plan for the use or disposition of idle land holdings such as those at Pickering, Ontario.**

> _Department's response:_ *The Department is currently conducting a study to determine the long-term requirements for Pickering lands and as a consequence are developing a listing of lands which may be declared surplus.*

Hamilton Airport Expansion - $48.6 Million Case Study 1

13.112 **In examining the proposal for the expansion project now under way at Hamilton Airport, we found that the analysis carried out by CATA failed to identify and disclose the potentially significant financial risks of the project. As a result, decision makers in the Department, and ultimately the Ministers of the Treasury Board, approved the project without receiving full disclosure of the financial consequences of this development.**

- **Traffic projections used to justify the project to the Treasury Board were known to be overly optimistic.** The project was based on forecasts showing dramatic traffic increases if the airport were expanded. CATA approval documents indicated that these levels of traffic would lead to an increase in cost recovery of operating costs from 30 per cent to 160 per cent. However, these forecasts were out of date by the time Treasury Board approval was sought for the investment in 1982. CATA did not adjust them downward to reflect the marked decline in projected traffic that had occurred prior to project approval. When CATA did formally revise the forecasts, following Treasury Board approval, projected traffic growth was cut by a third, as shown in Exhibit 13.8.

  Traffic forecasts that CATA presented to the Treasury Board did not adequately deal with several factors that would reduce projected traffic at Hamilton Airport. Seat sales by major airlines, introduced by 1980, were a factor that slowed the anticipated growth rate of charter traffic at smaller airports, which was to play a major part in previously forecast traffic growth at Hamilton. Also, the granting of landing rights to Hamilton's principal carrier at neighbouring Toronto well before 1982 was another factor that CATA did not address in its request for funds submitted to the Treasury Board in 1982. Similarly, the forecasts did not adequately consider the impact of deregulation in the United States. Many travellers use Buffalo and Niagara Falls, New York airports rather than Hamilton, to take advantage of less expensive U.S. fares. Deregulation in the United States was a known factor in 1982 when Treasury Board approval was sought.

- **The estimate of projected losses was not disclosed to Ministers.** CATA projected a significant lifetime revenue shortfall of $16 million, which was not disclosed to Treasury Board.

- **The estimate of projected losses contained a number of errors that resulted in significant understatement of the losses.** The analysis used an unrealistically low interest rate to calculate the present value of future costs and revenues. In addition, it included in the estimate of future revenues a type of passenger fee that airports of Hamilton's size are not allowed to charge.

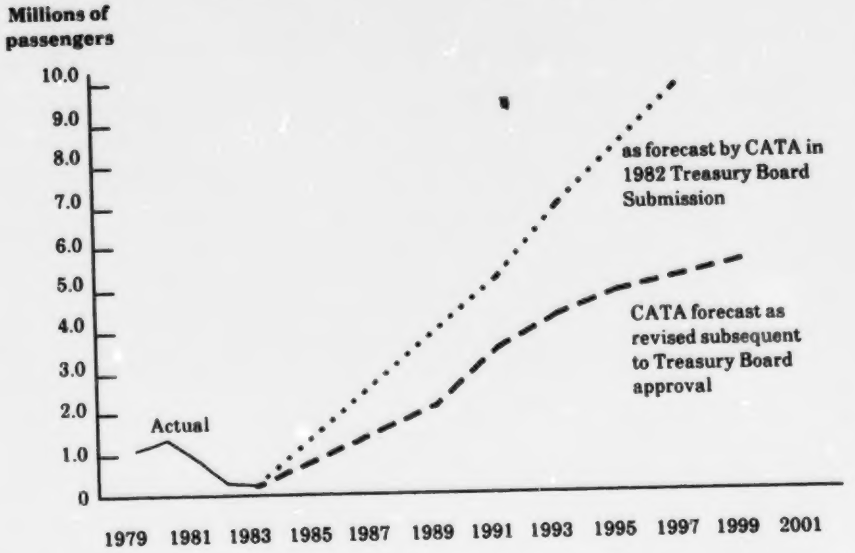
- **Lack of user commitment.** CATA did not obtain agreements from airlines to rent space in the new terminal building. Indeed, at the time of our audit, no airline had committed itself to operating from the expanded airport.

13.113 In summary, these various weaknesses resulted in a Treasury Board submission which did not set out clearly the financial risks of the project. It now appears that revenues could fall short of recovering costs by $28 million over the life of the asset.

13.114 We were informed by the Department that the Treasury Board submission did not include the points raised above because approval in principle for the project had already been received from Cabinet in 1980. Nevertheless, in our opinion, the Treasury Board submission that was prepared two years later should have raised these points.

Exhibit 13.8

HAMILTON AIRPORT
REVISION IN PASSENGER FORECASTS



Traffic projections used to justify this project were known to be overly optimistic.

Contributions to Municipal Airports

13.115 CATA provides financial assistance through contributions for both operating and capital purposes to regional and local airports operated by municipalities and other parties. We examined the management controls CATA has in place for ensuring that only eligible airports are supported and that there is compliance with terms and conditions of contributions.

Operating Contributions

13.116 There is no assurance that airports that receive financial support are in fact eligible for such assistance. In 1972 the Government approved a policy for identifying airports that formed part of the national transportation system and were therefore eligible for federal subsidies. In 1976, Treasury Board limited the program in that no new airports could qualify for the operating contribution program. Since 1976, CATA has not applied any tests to determine whether the airports receiving contributions before 1976 remained eligible for federal assistance.

13.117 In 1983, the Treasury Board Secretariat asked CATA to submit updated eligibility criteria for financial assistance to these airports. At the time of our audit, CATA had not made such a submission.

13.118 However, the Department has informed us that new eligibility criteria based on population and accessibility have been developed which, if approved, may disqualify many airports eligible for subsidy at present, while adding others to the list.

13.119 **Incentives to minimize subsidies.** The current financial assistance policy and related contribution agreement do not provide airport operators with financial incentives that promote economy and efficiency. For example, CATA does not provide financial incentives for augmenting revenues beyond the stipulated minimum although these would encourage operators to explore new sources of revenue to offset costs that would otherwise be eligible for a federal contribution. Nor are recipients required to make their own financial contribution to help defray operating costs with a view to sharing the federal government's burden. Furthermore, the operating contribution agreements do not provide sufficient assurance that only appropriate costs are subsidized. They do not clearly distinguish between specific expenditures that are eligible for funding and those that are not. This weakness has the potential for allowing airport operators receiving subsidies to charge the federal government for ineligible expenditures.

13.120 Contributions to municipal airports are based on annual budgets reviewed and approved by CATA. Nevertheless, specific deficiencies have been noted by CATA's own post-audits of these expenditures. On the revenue side, in some instances billing and collection procedures for landing fees and parking fees were found to be inadequate, resulting in lost revenue. On the expenditure side, excessive or ineligible costs were claimed and reimbursed for items such as employee benefits, providing firefighters, cleaning air terminal buildings, travel, overhead and other administration expenses. For example, at Hamilton, 11 firefighters are provided by the city to Mount Hope Airport at a salary cost of $310,000. CATA post-audits pointed out that costs being claimed were excessive because the number of firefighters was not warranted considering the size and type of scheduled aircraft using this airport. In the absence of incentives to minimize costs, airport operators have little reason to exercise tight control on such expenditures.

13.121 Although post-audits have provided a certain amount of control over the risk of subsidizing ineligible expenditures, they are not a substitute for properly structured incentives.

13.122 **Arctic airports.** There is a general memorandum of understanding between CATA and the territorial governments on terms and conditions relating to funding the 46 arctic airports. Also, related guidelines recognize CATA's right to conduct reviews and audits of its contributions. However, CATA has not exercised its right with respect to auditing the expenditures it funds. As a consequence, independent assurance is not obtained on whether the contributions were spent by the local airports for the purposes intended.

Capital Contributions

13.123 We noted that CATA made certain capital contributions for airport development that were not fully justified from a transportation point of view. We were informed by CATA that these contributions, although they are from Department of

Transport appropriations, are made to meet other government objectives and that CATA is not responsible for deciding to fund or subsequently to evaluate the benefits of these projects. An example is the contribution of $4.3 to the airport in Drummondville, Quebec approved by CATA at the time of our audit. The money is intended for extensive airport development, including an air terminal building, runway extension and the installation of navigational aids. However, an earlier project evaluation submitted to CATA by its Quebec regional administrator recommended that only runway repairs and repaving at a total estimated cost of $337,000 were necessary to meet transportation requirements. The $4.3 million had not been paid at the time of our audit.

13.124 The Department should approve and promulgate the draft policy for financial assistance to municipally-owned airports, including the criteria that will be used to judge airports' eligibility for assistance.

> *Department's response: A draft financial assistance policy has been developed by the Department. Subject to developments on the new management structure, this draft will be submitted for government approval.*

Air Navigation Services

13.125 Aids to navigation provide essential services to aviation (see Exhibit 13.9). Navigational systems make the skies and runways safe and save fuel by providing direct routes. CATA's official objective for this activity, as reported to Parliament in Part III of the Estimates, is to assure the safe and efficient movement of civil aircraft in Canadian and adjacent international airspace. As well, CATA's general policy for cost recovery calls for the full recovery of en route navigational costs from those who use the system, other than costs to be assumed by the government for facilities and services provided primarily to relieve isolation or to serve other government policies requiring a departure from commercial viability.

Planning and Control Systems

13.126 Our review revealed two general shortcomings in CATA's planning and control of air navigation systems. The first relates to cost recovery and the second to the process of defining system needs and associated operational requirements.

13.127 **Cost recovery.** The largest and most costly element of the air navigation system – en route aids that guide aircraft along routes from airport to airport – recovered only about one-quarter of its $163 million expense in 1984-85. While we recognize the difficulty of developing and administering specific user charges in this area, we found that in spite of the very large size of the capital projects now being planned, inadequate attention had been given to investment planning and development of charges designed to promote CATA's stated objective of recovering appropriate en route air navigation system costs.

13.128 Income from the tax on passenger tickets represents the domestic en route system's only source of user financing. About 15 per cent of the tax revenues, yielding $32 million in 1984-85, is arbitrarily allocated to the en route system. The remaining 85 per cent is allocated to airport operations. CATA is considering allocating a larger share of ticket tax receipts to the en route system, but such a change would simply lead to reporting increased losses in airport operations.

13.129 CATA continued to plan and implement additional navigation system investments for the benefit of users without reference to cost recovery implications. Although CATA estimates that the benefits of investments such as the Radar Modernization project will include substantial fuel savings to airlines and time savings to passengers, it did not attempt to obtain commitments from future users to pay for some or all of the cost of achieving these savings and has made no cost recovery plan. Furthermore, CATA has not disclosed to Parliament the increase in level of service that such system improvements are intended to provide to the aviation industry and what this will cost the general taxpayer.

13.130 **Needs analysis.** We found inadequacies in the process used by CATA to determine the needs of the air navigation system and the means by which such needs are translated into specific operational and equipment requirements. Rather than determining the basic need first, and only then specifying the technical requirements, CATA reversed the process. This increases the risk of acquiring assets that may not be fully justified. Specifically, before completing an analysis of its long-term needs, CATA developed a long-term plan, the National Airspace System plan, for acquiring major new equipment systems. This plan recommends expenditures of $3.5 billion on new equipment and facilities. A number of equipment projects included in the plan, such as Radar Modernization (see Case Study 2), are already well under way. Others, such as microwave landing systems, are at the proposal stage. However CATA has just begun its Canadian Airspace Review, which will examine overall system needs, review the present air navigation system, analyse benefits and costs and how they will be shared between users and the government, and determine the levels and types of services CATA should provide.

13.131 We found a number of deficiencies in CATA's process for identifying the need for new navigational facilities and equipment. In particular, there was a lack of rigorous cost-benefit analysis. In the few cases where benefits and costs were compared, the most economical option was not always followed. Managers attributed this to their having to consider non-quantifiable benefits in support of other government objectives.

13.132 In particular, CATA has failed to take advantage of technological changes that could make it possible to consolidate the existing structure of air traffic control facilities. We found that, in the past, when such opportunities existed CATA had either failed to make a rigorous examination of the costs and benefits of consolidation or had failed to act when its own analysis showed that benefits significantly exceeded costs.

13.133 For example, CATA studies concluded that consolidating the Winnipeg and Edmonton area control centres in one facility at Edmonton would cost approximately $9 million less than constructing a new facility in Winnipeg. However, for reasons unrelated to cost, including staff disruption and a perceived risk associated with concentrating services in a single location, CATA recommended construction of the facility at Winnipeg.

Acquisition of Facilities and Equipment

13.134 Over the past several years, many navigational facilities (terminal control units, flight service stations, traffic control towers, instrument landing systems, and so on) have been acquired, installed, and operated without a clear and consistent means of identifying the true need for them. As well, there were no criteria for determining when such installations were no longer required. This has led to the construction and continued operation of facilities that may not be justified by the volume of air traffic, by safety requirements, or by other factors.

13.135 CATA has recently developed criteria based on cost-benefit analysis for determining the need for new traffic control towers and certain flight service stations and for deciding when existing towers should be discontinued. Comprehensive criteria for other navigational facilities, however, have yet to be established. We note that, on the basis of the new criteria for towers, many existing airport towers would not now be justified. Moreover, CATA has recently constructed a new airport tower at Charlottetown, P.E.I. even though there is no justification for the tower based on the benefit-cost criteria introduced in the same year.

Operations

13.136 Our examination of efficiency in CATA's operation of navigational facilities led us to conclude that there is a potential for substantial cost reductions in several areas.

13.137 **Staffing.** In 1982 CATA determined that area control centres would be overstaffed in the future by approximately 150 air traffic controllers and projected that the overstaffing would continue at least through 1986. A major CATA study in 1984 confirmed this. CATA's response to overstaffing in area control centres was limited to freezing the number of employees at the 1 January 1983 level, at least until 1 April 1986, and allowing voluntary inter-regional transfers to occur. CATA believes additional controllers will be needed after 1987. Even though overstaffing occurs only in certain regions and other regions are understaffed, measures such as CATA-initiated transfers to other regions were not implemented. The cost of carrying these surplus air traffic controllers in the intervening period is in the range of $8 million to $12 million in additional salary costs. CATA pointed out to us that costs associated with not retaining surplus staff, such as separation pay, must also be considered.

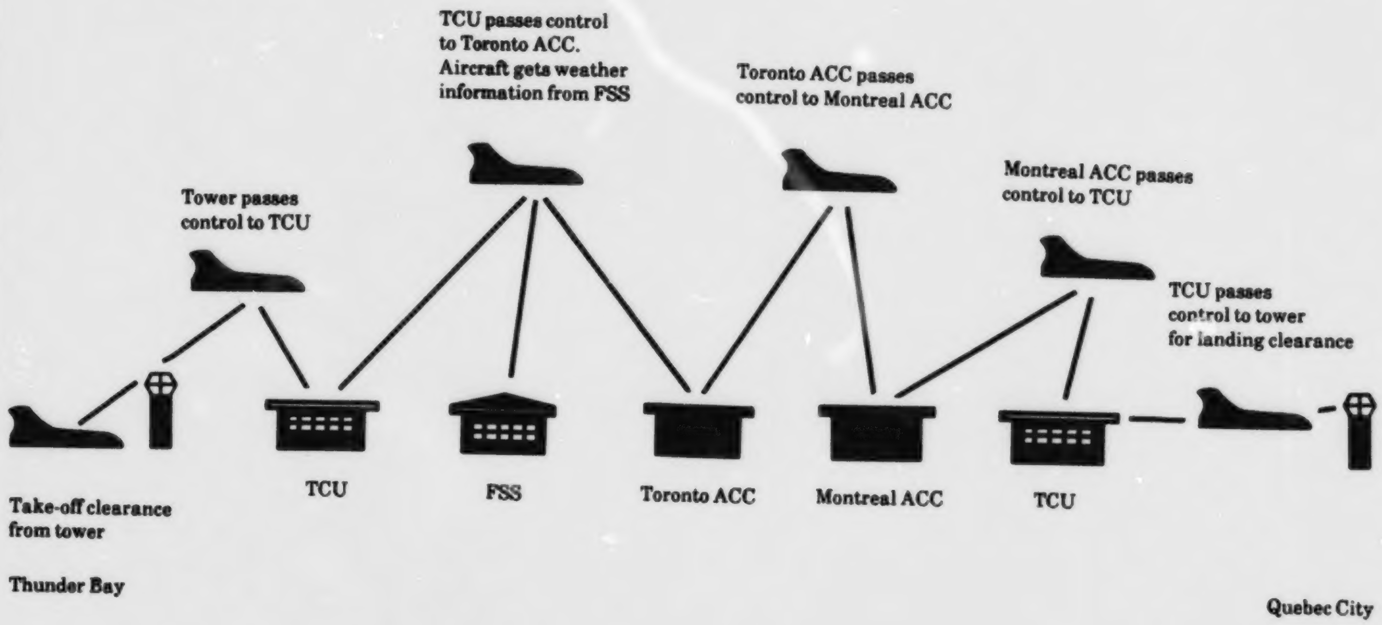
13.138 Towers are also overstaffed. As early as November 1981, the application of newly developed control tower staffing standards projected surplus controllers. CATA management has now been aware of the overstaffing situation in towers for approximately four years but has not taken action to reduce the surplus. The cost of carrying the surplus tower controllers is estimated at approximately $8 million.

13.139 Although CATA was aware of a general overstaffing of controllers, training of additional new controllers was allowed to proceed in 1984. Contracts established with two community colleges for the initial training of 192 controllers were not renegotiated, to take into account the reduced need as a result of the slow growth in traffic, despite the statement

Exhibit 13.9

TCU = Terminal Control Unit
FSS = Flight Service Station
ACC = Area Control Centre

AIR NAVIGATION SERVICES


TCU passes control
to Toronto ACC.
Aircraft gets weather
information from FSS
Toronto ACC passes
control to Montreal ACC
Tower passes
control to TCU
Montreal ACC passes
control to TCU
TCU passes
control to tower
for landing clearance
TCU
FSS
Toronto ACC
Montreal ACC
TCU
Take-off clearance
from tower
Thunder Bay
Quebec City

A typical commercial flight uses a wide range of air traffic control facilities.

by CATA that "it may be necessary to place them in other employment until other air traffic control positions become available". The total cost of the training contracts with the community colleges is $6 million.

Flight Service Station **Control Tower**

Overlapping services at Moncton, New Brunswick. Both facilities operate all night, but either could handle the average of six aircraft that land here between midnight and 7 a.m. (see paragraph 13.140).

13.140 **Overlapping services.** During specific periods of the day, an overlap of services exists between certain flight service stations and airport towers. We noted that at 39 airports, both flight service stations and towers operate. At these controlled airports, during specific periods of reduced traffic, CATA has two air traffic units capable of providing similar service, that of landing an aircraft safely. For example, during the midnight shift, Moncton tower and Moncton flight service station are both operating, while each is capable of landing the very limited traffic safely during this period. Also, in the cases where a flight service station is situated close to an area control centre, either facility could provide a flight planning service for visual and instrument flight plans.

13.141 Another aspect of overlapping services is the close proximity of certain flight service stations. The station in Gatineau, Quebec, for example, which provides bilingual services, is only 23 kilometres from the Ottawa station. Consolidation in one location could result in savings.

13.142 There is also an overlap of services offered by the flight service stations and Environment Canada weather offices. At 48 airports, both a flight service station and an Atmospheric Environment Services Weather Office operate. In most cases both are staffed for, and provide, weather briefings to pilots, in addition to other services. Both are also equally capable of taking weather observations.

13.143 **Hours of operation.** We noted that some towers operated during periods of very limited traffic, when their operation was not warranted for safety reasons. CATA does not have criteria that relate the hours of operation to traffic requirements. Such criteria are used in the U.S. In addition, a 1979 internal CATA study recommended that CATA develop such criteria.

13.144 **For the domestic en route system, the Department should develop a cost recovery plan, including recovery for investments such as the Radar Modernization project.**

> *Department's response:* *In progress. A proposal is expected to be completed this year; industry will then be consulted.*

13.145 **For the other air navigation systems, the Department should:**

- **develop criteria for navigational facilities and equipment that incorporate benefit-cost analysis; and**

> *Department's response:* *The criteria have been developed and approved by the Minister.*

- **review the overlap of services between air navigational facilities such as flight service stations and airport towers.**

> *Department's response:* *The perceived overlap of services is under review as part of the reorganization.*

13.146 **Flight inspection.** Without reducing safety, CATA could cut down on its annual cost for this activity by approximately $4 million by reducing the frequency of inspection of instrument landing systems and high-frequency radio systems. Our analysis of CATA's own flight inspection data for one specific region provides convincing evidence that navigational aids could be inspected less frequently without adverse impact on safety or serviceability. The increased reliability of the newer solid state equipment has generally resulted in reduced maintenance requirements, yet CATA appears tied to its traditional practices. In the face of the clear international trends toward reduced inspection frequency for aids to navigation shown in the following table, we believe CATA needs to change its existing flight inspection policies to reduce the frequency of inspection. Such a reduction would lead to lower operating and maintenance costs for CATA's fleet of aircraft.

Comparative Standards for Frequencies of Flight Inspection of Aids to Navigation

Type of Aid to Navigation	Canada	U.S.	U.K.
VOR (VHF radio system)	2 a year	1 a year	2 a year
DVOR (High-precision radio system)	2 a year	1 a year	1 every 5 years
ILS (Instrument Landing System)	3 a year	2 a year	3 a year

Source: International Civil Aviation Organization documents.

13.147 CATA should explore the savings possible through reducing the frequency of inspection of navigation aids without sacrificing safety.

> Department's response: *Implementation of a management information system in support of flight inspection is under way. When operating, the statistical data provided by the system will permit a continuous review of the frequency of inspections.*

Radar Modernization Project - $810 Million Case Study 2

13.148 The Radar Modernization project (RAMP) was approved in 1981 by Treasury Board. Under RAMP, CATA will install new air traffic control radar and display systems and modify existing electronic equipment. The project will continue through 1992 at a total cost, in current dollars, of $810 million.

13.149 CATA's policy states that "the cost of facilities and services will be subject to full cost recovery, except for the portion of en route costs to be assumed by the government for facilities and services provided primarily to relieve isolation or to serve other government policies requiring departure from the objective of commercial viability."

13.150 CATA projected that savings in time and savings in fuel for airlines would result from the improved radar facilities. Nevertheless, it did not seek a commitment from users to recover any of the costs of RAMP. Thus, there is no assurance that users will pay for the expanded services that CATA has decided to provide.

Regulatory and Aircraft Services

13.151 The Commission of Inquiry into the State of Aviation Safety in Canada, headed by Mr. Justice Charles Dubin, submitted the last of its three volumes of reports to the Minister of Transport in October 1981. Among its main concerns were the need for an independent agency to investigate aviation "occurrences" - that is, actual or potential accidents; the need for new aviation regulations; the lack of enforcement by CATA of existing regulations; and the need for greater emphasis on monitoring continuing airworthiness.

13.152 In our review of Regulatory Services, we carried out a brief follow-up of the progress made by CATA in implementing Mr. Justice Dubin's main recommendations. We also examined cost recovery, CATA's management information system for identifying high risk situations that require priority attention and the extent to which risk is a factor in scheduling inspections of regional air carriers. Finally, we assessed the extent to which CATA examines the economic impact of its regulations.

Dubin Commission

13.153 Since 1981, CATA has made great efforts to improve its aviation regulation functions. Implementing the Commission's recommendations has been a major priority. CATA has created a separate Aviation Regulation Directorate with an Enforcement Division, carried out special audits of large carriers, standardized many of its procedures through the publication of manuals and set up a new Continuing Airworthiness Division. By an Act of Parliament, an independent Canadian Aviation Safety Board was created to investigate aviation occurrences.

13.154 Most of the deficiencies that the Commission identified with respect to the Aeronautics Act and its regulations had not been corrected at the time of our audit. However, the Aeronautics Act was amended in June 1985, and extensive changes to the existing safety regulations were being proposed at the time of our audit. Solutions to certain problems referred to by Mr. Justice Dubin have not yet been found. For example, the regulations governing landing in poor weather conditions, which were recognized by CATA as unenforceable in 1978, have been studied by CATA, and we were informed that changes have been recommended; but these have yet to be finalized by the government.

13.155 Also, CATA has not received the level of legal support from the Department of Justice recommended by the Commission. CATA finds that the legal support available, which varies from region to region, is insufficient to allow for effective prosecution. The Department of Justice has informed us that the number of violations does not justify providing the services of a lawyer exclusively for aeronautic matters in each region, as recommended by Mr. Justice Dubin.

13.156 The Commission's recommendation that CATA carry out unannounced audits of air carriers had not been fully implemented at the time of our audit. Furthermore, CATA has not yet decided whether to carry out flight checks on single-engine commercial Visual

Flight Rules pilots. It is currently conducting surveys to determine the number of pilots to be checked if the recommendation is to be implemented.

Cost Recovery

13.157 Total government support for regulatory services was $98 million in 1984-85. CATA's cost recovery policy for these services states that "costs will be fully recovered, except for costs to be assumed by the government for the development and enforcement of aeronautics legislation, standards and procedures, and for such other costs as may be incurred for government objectives".

13.158 Fees for regulatory services – personnel licensing, aircraft licensing, airworthiness approvals, operating certificates, and aerodrome licensing, cover an estimated 12 per cent of the cost to deliver such services, even after costs to be assumed by government have been removed.

Management Information

13.159 We found that CATA's management information systems failed to identify high risk areas. Ongoing analytical information did not identify areas that pose a high risk for aviation safety. Most of the present reporting systems only describe accidents that have occurred; they do not include contributing causes. Safety information with causal factors is reported regularly by the Department of Defence, for example, to allow it to spot safety problems arising in the operation of its fleet.

13.160 The Canadian Aviation Safety Board has implemented new aviation occurrence reporting systems, which will provide CATA with information such as the causes contributing to specific accidents and incidents. However, CATA requires a more comprehensive management information system that will also draw on sources such as the Canadian Transport Commission, which could supply data on the finances of airline companies. It is widely believed that airlines with weak finances pose a higher risk to aviation safety. CATA's own Enforcement Division could add valuable information on the extent of regulatory violations. Such a comprehensive system would serve to develop management reports that highlight safety trends and alert the Department to high risk situations requiring priority attention. Resources could then be allotted on that basis.

13.161 An initiative is under way in one branch of CATA to create an information system for aviation safety purposes. However, this is still in the planning stage, and it was not clear at the time of our audit whether it would address all the existing deficiencies.

Inspections

13.162 There is no formal system for targeting regional carrier inspections on the areas of highest risk. Much of the work of CATA regional inspectors in the Air Carrier and Airworthiness sections involves reviewing the operations of air carriers and inspecting their operating bases and repair and maintenance facilities. We found that inspectors do not make more frequent formal base inspections, on a systematic basis, of air carriers identified as higher risk operators. Only in the Quebec region did we find a systematic attempt to schedule inspections on the basis of risk.

13.163 Generally, base inspections are required to be carried out at least once a year for all carriers, irrespective of their safety records. However, in practice, none of the regions was able to inspect all the carriers in its jurisdiction at least once a year. We have been advised by CATA that initiatives have been taken to direct more intensive inspection activities to higher risk operators.

Cost-benefit Analysis

13.164 Regulations are not always subject to full cost-benefit analysis. Although the cost to CATA of developing regulations is relatively low, the economic impact on industry can be very high. The need for regulatory reform has been recognized by the Department as a priority. While there appears to be more potential for reform in economic deregulation than in safety deregulation, a major concern that the Department will examine is the need to find a balance between government involvement and the responsibility of industry to self-regulate through its own initiatives.

13.165 We identified examples where CATA's regulations may, in aggregate, have led to significant costs to the aviation industry. However, CATA has in many cases not adequately analysed whether the benefits warranted these costs. For example, in Canada, CATA regulations require that aircraft owners replace parts after the fixed period of time recommended by the manufacturer of the aircraft. CATA has not fully analysed whether the manufacturer's recommended parts replacement schedule is appropriate. In the United States, the manufacturer's recommendations are only a guide; the professional judgement of a certified mechanic is the key determinant.

13.166 In regulating aviation safety, the Department should develop information systems that highlight safety trends and identify high risk areas as a basis for targeting regulatory activities and resources.

> *Department's response:* *The Department is in the process of instituting the System Analysis and Functional Evaluation (SAFE) Program for analysing aviation accident and incident reports being received from the CASB and other aviation occurrence reports from various sources. The trend analysis of aviation deficiency records will provide a valuable guide for senior management to determine the most effective direction for CATA's Regulatory and Air Navigation activities.*

Aircraft Services - Operational Fleet

13.167 The objective of this activity is to provide efficient aircraft services for transporting and training CATA personnel. To this end, CATA owns and maintains an Operational Fleet of 36 aircraft of eight different types at seven locations across Canada. The total annual operating costs are estimated at $10 million. The fleet flies 16,000 hours a year: 10,000 hours for transportation of staff for inspections in the regulatory function, and 6,000 hours for the training of more than 400 CATA personnel to maintain their flying proficiency.

13.168 We examined the use of CATA's Operational Fleet and the costs of operating it to assess whether the CATA management approach to owning versus renting is satisfactory.

13.169 We also looked at the proficiency flying activity. Specifically, we considered CATA's eligibility criteria for allowing its personnel to maintain flying proficiency at the taxpayer's expense, and whether satisfactory procedures exist for measuring and reporting on the effectiveness of this activity. We did not examine the helicopter fleet operated by the Canadian Coast Guard or the Executive Fleet, now managed by the Department of National Defence.

Fleet Utilization

13.170 Fleet utilization was low in comparison to other government jurisdictions. The average aircraft utilization rate for the Operational Fleet for 1984-85 was 450 hours. CATA has not set a minimum utilization standard. The Department of National Defence operates its transport aircraft at an average annual utilization rate of 900 hours. In the United States the minimum utilization rate needed to justify the acquisition of an aircraft for the Federal Aviation Administration (FAA) fleet is 500 hours.

13.171 For the past two years, several aircraft of the Operational Fleet flew less than 200 hours a year, as shown in the following table.

Aircraft	**Utilization**	
	1983-84	**1984-85**
Baron CGM	204 hours	68 hours
Beaver DTY	194 hours	283 hours
Beaver DTZ	129 hours	169 hours
Beaver DTC	122 hours	211 hours
Cessna 206 CFH	201 hours	205 hours

13.172 We were informed that the utilization rate was low because acquisition of new aircraft has not always been matched with disposal of the old. Also, because working hours of both pilots and maintenance personnel are generally limited to 8 a.m. to 5 p.m. five days a week, maintenance is often carried out during hours when the aircraft are required by their users.

Cost of Operation

13.173 The cost of operating certain CATA-owned aircraft is considerably higher than that of renting comparable aircraft. Although CATA rents a very small proportion of its flying hours, its own experience in one region has shown that this can be more economical than operating its own aircraft. In the United States, the FAA has comparable activities. However, 19,000 hours out of a total annual requirement of 25,000 are flown aboard aircraft which the FAA rents or leases from the private sector – a practice that is not widely used in Canada. Savings possible through rental of aircraft flown less than 400 hours a year, based on CATA's own figures and quotations from several rental organizations, are estimated to exceed $750,000 annually.

13.174 Despite the possibility of significant savings, CATA has not decided to meet its aircraft requirements other than through outright ownership.

13.175 **The Department should examine the potential for savings from leasing aircraft as opposed to buying them.**

> *Department's response: The Operational Fleet Plan which is nearing completion covers this recommendation.*

Proficiency Flying

13.176 All civil aviation inspectors are eligible for proficiency flying, whether or not their job requirements clearly establish the need for this type of training. Under this program, some 400 personnel are entitled to receive recurrent flying training to maintain their commercial pilot ratings. The proficiency flying program consumes about 40 per cent of the Operational Fleet's flying time. Successful completion of the program entitles personnel to an annual extra allowance of $2,400.

Courtesy Transport Canada

Flying practice is given every year to all 400 civil aviation inspectors, at an annual cost of up to $22,000 each, to ensure that they are "knowledgeable and current concerning state of the art aircraft ..." However, the aircraft shown above, including a 30-year-old DC-3, are used for this purpose in Ottawa (see paragraph 13.178).

13.177 According to CATA, the proficiency flying activity is based on the requirement "that all civil aviation inspectors maintain a current licence, and be knowledgeable and current concerning state of the art aircraft and associated systems pertinent to the duties of their position". However, the extent of benefits to CATA of maintaining this commercial licence for all inspectors, irrespective of their current job requirements, has not been evaluated.

13.178 Given the stated objective of keeping civil aviation inspectors up to date, at the time of our audit CATA had not done adequate analysis of the kinds of training necessary to ensure that the proficiency flying activity, as it is now constituted, will meet this objective. In fact, the activity does not seem to be designed primarily to keep all its participants knowledgeable and current on aviation developments. For example, some of the inspectors based in Ottawa are tested for their Airline Transport Rating by flying most of their hours in a DC-3 which is over 30 years old. Furthermore, while CATA limits to 48 the number of hours a civil aviation inspector may fly within the proficiency flying activity, it has not done adequate analysis to justify this target.

13.179 Also, satisfactory procedures are not in place to measure and report on the effectiveness of this training activity. We estimate the cost of the proficiency flying activity for individuals who do not fly as part of their regular duties, to be $22,000 each. This figure relates principally to the cost of the aircraft and the cost of working time lost.

13.180 In spite of the high cost of this training, the Department has not adequately dealt with alternative ways of meeting the legitimate training requirements of civil aviation inspectors.

13.181 **The Department should examine alternative methods that may be more economical for meeting the proficiency flying activity objective for civil aviation inspectors.**

> *Department's response:* *The Department has studied alternative methods and agrees that simulator training can make up part of the flying program for civil aviation inspectors.*

Departmental Corporate Controls

Senior Financial Officer

13.182 Our review indicates that the Assistant Deputy Minister (ADM), Finance is held responsible by the Deputy Minister for providing leadership in financial management and control for the whole Department. This authority is clearly established by departmental policy. CATA has its own senior financial officer; however, the ADM, Finance is accountable for functional direction to all financial staff and for providing independent advice, guidance and challenge for existing program activities and initiatives such as new airport and air navigation services.

13.183 **Advice and challenge.** We found that the ADM, Finance has not been able to play a significant role in providing advice or challenging some Air Administration operations and program initiatives that have a significant financial impact. A number of capital investments to expand major airport and related navigation facilities have been made without a timely independent review of their commercial viability or an analysis of costs and benefits where expenditures support government objectives beyond those associated with commercial civil aviation requirements. For example, the Self-supporting Airport and Associated Ground Services Revolving Fund is not monitored or controlled by the ADM, Finance despite the financial difficulties facing this major component of the Program. Moreover, the ADM, Finance does not participate actively in the financial arrangements negotiated with the airlines, the basic users of both airport and air navigation services. Nor does he provide advice on the development of cost information on program activities subject to cost recovery. Lack of adequate cost accounting is a major weakness in the financial management of the Program.

13.184 Challenge by the ADM, Finance of major program initiatives for which large capital expenditures are committed, such as the Radar Modernization project ($810 million from 1980-81 to 1993-94) and the proposed CATA Capital Investment Plan ($500 million a year), occurred so late in their development that it could not effectively question their financial implications.

13.185 **Monitoring financial performance**. Monitoring by the ADM, Finance of the Air Administration's financial performance is limited to a review of expenditure levels against forecast figures. There is no evidence of analysis by the ADM of such important issues as the need for justifying additional airport capacity and declining cost recovery levels for various activities. Thus, there is no independent challenge of their financial viability or appropriateness. At the time of our audit, a major internal review of the Air Program's total human resource requirements was under way, as suggested by Treasury Board. However, this important study was being carried out without the involvement of the ADM, Finance.

13.186 **Functional direction.** The functional direction provided so far has tended to focus more on compliance with departmental and central agency systems and procedures than on areas of advice, challenge and performance monitoring. The ADM, Finance is, however, strengthening functional direction to the financial officers in CATA, and the potential for further improvements is being examined.

13.187 A stronger leadership and challenge role, accepted by both the ADM, Finance and Program officials, is needed. We encourage the Department to support and solicit, as a matter of course, the ADM, Finance's active participation and involvement to ensure an effective controllership function.

Program Effectiveness Measurement

13.188 Responsibility for conducting program evaluations in the Department of Transport rests with the Program Evaluation Branch. We reviewed the Branch's studies of the Air Program to determine whether program evaluation was a significant source of effectiveness information for management.

13.189 We found that evaluations completed to date of the Air Administration have examined only a small proportion of its activities. Of the three evaluations of the Air Program completed since 1981, two examined aspects of services provided to other government departments and the third examined aspects of air traffic controllers' training and staffing. We did not conduct a detailed audit of the quality of the studies because the evaluated activities comprise only a few parts of the Air Program that by themselves are not significant. We were informed, however, that the Branch has two evaluations in progress that are examining more significant parts of the Air Program.

13.190 **Ongoing performance measurement**. In other sections of this chapter we have noted instances where information to management on the performance of the Air Program was inadequate. In particular, the financial performance of CATA is not regularly analysed and reported. Airport operations and maintenance efficiency could be improved, but senior management does not receive regular analysis of efficiency at individual airports. Information is inadequate to ensure that safety activities are properly targeted.

13.191 To understand these deficiencies in management information on performance, we examined CATA's approach to performance measurement. Over the past decade it has made numerous unsuccessful attempts to establish systems to measure performance. We estimate that these attempts have cost more than $1 million. In 1984-85, CATA embarked on another attempt at establishing such a system as part of its operational planning framework. This initiative is unlikely to succeed without defining performance targets that managers are expected to meet.

13.192 To assess whether performance measurement was appropriate for an organization like CATA, we examined whether other organizations in the transportation sector, particularly in aviation, were using it. We found that many such organizations in Canada and elsewhere have established performance measurement systems. For example, Air Canada uses regular surveys of travellers' satisfaction in making changes to its services. The British Airports Authority provides the public with information on its performance against government targets for rate of return on investment, employee efficiency and cost per passenger, and on user satisfaction. In the United States, financial performance is monitored both by some airports and by independent credit rating agencies that provide the public with information on the viability of prospective investments.

Internal Audit

13.193 The role of Internal Audit is to provide the Deputy Minister with an independent assessment of the management process and to identify areas where opportunities for improvement exist. It provides an effective mechanism for managerial control by communicating this information to the Audit and Review Committee, which is chaired by the Deputy Minister.

13.194 In our review of the activities of Internal Audit as they relate to the Air Program, we found that there had been significant progress in using Internal Audit reports to communicate to senior management areas of both strength and weakness. However, we noted areas to which we believe Internal Audit could give greater emphasis.

13.195 **Scope of internal audits**. A recurring problem is that the scope of audits does not extend to the broader implications of control weaknesses uncovered. For example, a June 1984 Internal Audit report on the key area of revenue and cost recovery pointed to a number of internal control weaknesses in CATA's cost recovery procedures. However, no attempt was made to examine and report on the significant causes for the rapidly declining cost recovery in the Air Program, or the impact the major capital projects under way in the air navigation system could have on cost recovery - in the absence of any commitment from users to pay. Similarly, no information was provided to the Deputy Minister on the fact that CATA had not developed a timely response to the Treasury Board's July 1983 reminder of the need for a comprehensive submission dealing with cost recovery goals and objectives.

13.196 **Audit process.** The design and execution of the internal audit process are generally sound. Follow-up audits, however, which are designed to indicate to the Deputy Minister how management has responded to reported weaknesses, do not adequately fulfil this function. In some instances, management did not act promptly to remedy reported weaknesses. This suggests that follow-up audits are not done soon enough and do not seriously challenge management's response. The Audit Committee has recognized this weakness and is now concentrating more on the adequacy of management responses.

13.197 There were limits to this Office's reliance on Internal Audit, because the scope of the work Internal Audit undertakes is not broad enough. In specific management and support systems, much of the internal audit work was valuable. However, it did not examine the overall cost effectiveness of major program activities or analyse implications of management control weaknesses in sufficient depth in the context of the whole Program.

Reporting to Parliament - Part III of the Estimates

13.198 We reviewed CATA's Part III Estimates submission for compliance with Treasury Board's instructions for its preparation and for objectivity, completeness, reliability, timeliness and comparability (with prior Part IIIs and other reports) of the information contained in it. In general, we focused on the areas covered by our comprehensive audit.

13.199 We found that, although CATA attempted to comply with Treasury Board requirements, it did not report fully and objectively on performance or, in certain instances, on resource utilization. For example, it did not state fully the reasons for removing 14 airports from the Self-supporting Airports and Associated Services Revolving Fund. Also, it did not disclose fully the reasons for and extent of the increasing deficit of the Air Transportation Program or provide an analysis of aviation services that amount to subsidies to special interest groups such as flying clubs and corporations with business jets.

13.200 Transportation and other government objectives and related goals and milestones were not stated in a manner that would permit the assessment of progress toward achievement. Also, insufficient explanations were provided in support of some major capital projects. For example, although the Radar Modernization project represents an improvement in the level of service provided to airlines, it was reported only as a rehabilitation and replacement of an existing system. An estimation of the financial costs of carrying excess capacity at certain airports and pursuing objectives beyond those associated with civil aviation requirements would also have been very informative to parliamentarians, as would be the objectives and criteria for providing grants and contributions to municipal and local airports that have little interprovincial traffic.

13.201 The financial performance of each major component of the Air Transportation Program, including the level of government support, should be disclosed annually in the Estimates, Part III, and significant variations from the previous year should be explained.

> *Department's response: This information is currently provided on a cash basis without a separate quantification of costs in support of non-transportation objectives. A study to determine these costs is presently under way.*

13.202 The financial cost of developing and operating each major component of the system should include:

- **direct operating and maintenance costs;**
- **all indirect costs, including overheads;**
- **depreciation; and**
- **an allowance for the government's interest on capital employed.**

> *Department's response: A national system that collects direct operating costs by planning elements and support functions has been in operation since 1 April 1984. Refinements and additions to the system will continue.*

Other Matters

Internal Accounting Controls

13.203 **Scope.** We examined internal accounting control by testing CATA's procedures for collecting certain fees and charges levied on air carriers. We also conducted a brief follow-up of our 1978 recommendations on the control over fixed assets.

13.204 **Passenger security services fees.** Control over the collection of this charge is weak. This fee is a $.20 charge per passenger at 18 airports in Canada, amounting to approximately $4 million a year. Air carriers are expected to pay this fee on the honour system since CATA does not invoice them. The only method of checking payments made by the carriers is to compare them to passenger statistics reported by the carriers to the Aviation Statistics Centre, which produces a report that is sent to the Department of Transport. This report is received monthly but not until approximately 15 months after the month to which it relates. The Department prepares an annual analysis comparing security revenue received with the amounts that should have been received according to the Aviation Statistics Centre data, but since this information is received much later than the period to which it applies, no attempt is made to collect outstanding amounts. According to CATA's own analysis, the net amount of security fees uncollected is approximately $100,000 a year.

13.205 **En route fees.** CATA is paying the Civil Aviation Authority in the United Kingdom to collect en route fees on its behalf without adequately evaluating less expensive alternatives. These fees are charges by CATA to airlines flying between Europe and North America for the use of telecommunications or other en route services. The revenue from these fees is approximately $10 million a year. Since many of the air carriers using these services do not land in Canada and, even if they do, cannot be seized or detained by the Minister of Transport for non-payment of fees, Canada entered into an agreement with the United Kingdom to have the Civil Aviation Authority bill and collect them. Under the current arrangement, CATA bills the air carriers and the Agency merely collects the fees and remits them to CATA. CATA pays the Agency approximately $140,000 a year for this service. A recent departmental internal audit report recommended that CATA review the costs and benefits associated with this arrangement, but CATA responded that it considered the arrangement to be satisfactory.

13.206 CATA has not, however, done a formal study to investigate alternative means of collecting these fees. Alternative methods that should be investigated include requiring air carriers to pay an advance deposit to CATA to ensure payments of fees due to the government. The Minister of Transport has sought authority to seize or detain aircraft through amendments to the Aeronautics Act. With these amendments, it may no longer be necessary to use the services of the Civil Aviation Authority.

13.207 **Fixed assets.** CATA values its fixed assets at a net book value of $2 billion. In our 1978 Report, we noted a lack of adequate financial control over fixed assets and made a number of recommendations aimed at improving this control. The Fixed Assets Accounting System - Transport was implemented in 1979 but, after a number of start-up problems, was effectively abandoned in 1982. No other system has been introduced since to provide the financial control over assets that the abandoned system was to provide. As a result, there is no further assurance that CATA's fixed assets have been properly accounted for or that control over their physical existence, movement or use is adequate.

Electronic Data Processing

13.208 Each year for the last five years, Transport Canada has reported substantial increases in actual and projected outlays for electronic data processing; for 1984-85 these outlays were foreseen by the Department to run to nearly $20 million. A national computer network, the Distributed Data Processing Network, has been installed at headquarters in Ottawa and at 12 regional sites, at a capital cost estimated at $21 million.

13.209 In 1982, when the installation of this network was approved by Treasury Board, the Department indicated that its cost would be offset over a period of about 10 years by savings to be realized through the introduction of nation-wide computer systems for areas such as the administration of employee compensation and other personnel management functions, inventory control, departmental financial management and local management of airports.

13.210 We therefore examined the progress the Department is making in developing these systems. We found that progress has been very slow, that the estimated cost to complete the system is growing, that a substantial part of the anticipated savings appears to be in jeopardy and that neither projected nor actual costs and savings appear to be well monitored and controlled by the Department. Because many of these systems are, for the most part, not yet fully in service, it is impossible to be certain that they will meet the needs of the users for whom they were designed. We relied primarily on internal audit for the examination of the cost effectiveness of this activity.

Air Transportation Tax

13.211 Carriers that fly passengers to international connections but do not operate in Canada collect ticket taxes for international flights to Canada and are expected to remit them to the Canadian government. However, we found that approximately $60,000 a year is not being remitted to Canada. In addition, we found that certain foreign airlines operate in Canada without a licence to collect ticket taxes as required by the Excise Tax Act.

FOLLOW-UP AND STATUS REPORT ON RECOMMENDATIONS IN 1983 AND 1982 CHAPTERS

FOLLOW-UP AND STATUS REPORT ON RECOMMENDATIONS IN 1983 AND 1982 CHAPTERS

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FOLLOW-UP AND STATUS REPORT ON RECOMMENDATIONS IN 1983 AND 1982 CHAPTERS

Introduction

14.1 The Office has almost completed a cycle of comprehensive audits of departments and agencies. Entities audited in 1982 and 1983 are scheduled for re-examination in 1987 and 1988. We believe it is therefore appropriate at this time to present a status report on action taken as a result of the observations and recommendations we made in 1982 and 1983.

Scope of the Follow-up and Status Report Work

14.2 Because of resource constraints and other priorities, we decided for this year that detailed follow-up of actions taken by departments and agencies, in response to observations and recommendations of the Office and, where applicable, of the Public Accounts Committee, would be performed only in a limited number of organizations.

14.3 Section A of this chapter reports on eight chapters from our 1983 and 1982 annual Reports where we carried out follow-up reviews to determine the current position in regard to certain observations and recommendations made by this Office and by the Public Accounts Committee.

14.4 Section B contains representations made to us by nine departments and agencies concerning the current position in regard to recommendations we made in 1983 annual Report chapters. We have not yet followed up these representations or the effectiveness of the actions described. We will be reviewing these status reports during comprehensive audits of these organizations that are scheduled in the near future.

14.5 Exhibits 14.1 and 14.2 show the organizations and areas followed up and the number of recommendations made by this Office and by the Public Accounts Committee in each area. Also shown is the number of recommendations this chapter addresses.

Exhibit 14.1

SECTION A

FOLLOW-UP REVIEWS

Chapter	Subject/Audit Entity	Recommendations OAG	 PAC	 Addressed in this chapter
1983 Report				
2	Constraints to Productive Management in the Public Service	- no recommendations made		
3	Program Evaluation	20	-	3
9	Energy, Mines and Resources - Energy Program	16	-	3
10	Environment - Parks Canada	11	2	13
13	Department of Transport - Marine Transportation Program	8	-	8
1982 Report				
7	Canada Employment and Immigration Commission - Immigration Program	16	-	16
12	Department of National Health and Welfare	14	-	14
14	Foreign Operations	37	4	41
	Total	122	6	98

Exhibit 14.2

SECTION B

DEPARTMENTAL REPRESENTATIONS

Chapter	Subject/Audit Entity	Recommendations OAG	PAC	Addressed in this chapter
1983 Report				
5	Management of the Forecasting Process - Department of Finance	13	-	13
6	Commissioner of Official Languages	11	-	11
7	Department of Communications	17	-	17
8	Canada Employment and Immigration Commission	29	-	29
11	Department of Labour	12	-	12
12	Secretariat of the Department of the Solicitor General	6	-	6
14	National Library	14	-	14
15	Public Archives	12	-	12
16	Statistics Canada	20	-	20
	Total	134	-	134

SECTION A

Follow-up Reviews

Constraints to Productive Management - 1983, Chapter 2

Introduction

14.6 In 1983, we commented on general conditions in the federal public service that constrain managers in their attempts to achieve higher levels of productive management. Although some of these constraints are in part an inherent element of public administration, others could be changed and improvement in productivity could occur.

14.7 The main constraints to productivity, judged in managerial terms, were reported in 1983 as:

- the impact of political priorities on productive management;
- the excess of administrative and procedural rules and regulations; and
- the relative absence of incentives to productive management and the presence of some disincentives.

14.8 Accordingly, we suggested that departments and agencies:

- encourage productive management;
- reduce disincentives, increase managerial authority and clarify accountability;
- emphasize the development of managers; and
- support experiments to improve productive management.

14.9 In our review of events and statements since 1983, we interviewed senior officials in representative central agencies, departments serving the public, and internal common service departments. We also looked at relevant public statements about managerial productivity that have been made since 1983.

Findings

14.10 It was encouraging to learn that interest in the findings and conclusions of the chapter had not diminished. On the contrary, concern with the problems then outlined had sharpened, and the chapter has served as a focal point for increased interest in productive management.

14.11 Several officials interviewed said that the chapter formed part of a series of related events and trends that helped focus attention on constraints. This included recognition by central agencies of the difficulties caused by ever-increasing detailed controls, and growing concern about the undue complexities caused by the proliferation of Ministries of State.

14.12 Although there have been no major changes in practices since the chapter was published, there have been some initiatives taken. Central agencies have negotiated some special arrangements with departments, modifying central controls according to the needs of individual departments. This tailoring of otherwise service-wide directives and processes is one of several encouraging signs. In addition to benefiting from these more flexible arrangements, departments are increasingly moving toward measuring program results. This greater attention to accounting for results, as distinct from accounting for compliance with central regulations, should encourage greater local initiative which, in turn, should contribute to improving productive management.

14.13 The complexity and slowness of the staffing process was identified in the chapter as a prominent complaint by managers. The Public Service Commission, in its 1984 annual report, stated that administrative reform of the staffing process is a first priority and that it is pursuing legislative reform to remove further constraints.

14.14 An important initiative has been the series of "Best Practices" seminars run by the Treasury Board Secretariat for managers. At these seminars, managers who have achieved significant improvements in productivity communicate their knowledge and experience to others. This emphasis on action-oriented management reflects a trend away from "fad management" to a greater trust by managers in their own judgement.

14.15 Several of the senior officials interviewed during the follow-up review showed continued concern with the state of managerial morale and motivation, recognizing it as a problem with no short-term answer. One department stated that improvements in this area had been made as a result of committed leadership.

14.16 Notwithstanding the developments that have taken place, a central problem remains. Some departments continue to perceive themselves as straining under detailed central agency controls, while central agencies point to the progress they have made in relaxing constraints. At the same time, a general dialogue has been going on between line departments and central agencies. This has included an exchange of views on the importance of leadership, of management values, of an appropriate system of incentives and rewards, and of an effective accountability regime.

14.17 The issue, then, is to strike an appropriate balance between the need and desire for greater departmental freedom of action on the one hand, and the need, on the other, for an appropriate amount of management policy that is consistent across government. This includes finding the right balance of delegation, control and accountability for performance while at the same time responding to pressures for managing with fewer resources due to efforts to reduce the deficit.

Program Evaluation - 1983, Chapter 3

14.18 We followed up two key matters dealt with in the 1983 chapter on program evaluation:

- the availability to Members of Parliament of information contained in evaluation studies; and
- the extent to which the evaluation function continues to be productive.

14.19 This review is based on findings from an examination of the program evaluation function in 18 of the departments and agencies included in our original sample.

Reporting to Parliament

14.20 In 1983 we recommended that the "Office of the Comptroller General should ensure that Part III of the Estimates refers to and incorporates the findings of evaluation studies that are pertinent to program performance and resource management."

14.21 In August 1984, the Office of the Comptroller General issued draft guidelines to departments and agencies on disclosure of pertinent program evaluation studies in Part III of the Estimates for 1985-86. These guidelines were issued on a draft basis pending further study of the nature of information contained in evaluation studies that would be relevant for inclusion in the Part IIIs. At the time of our follow-up, the Office of the Comptroller General was re-examining the guidelines with a view to making them more effective.

14.22 We found that, in the period from April 1983 to July 1984, 15 departments had completed 57 evaluations. Although the Comptroller General's guidelines had been issued only in draft form, 11 of these departments (accounting for 37 of the 57 studies) had reported one or more of their studies in Part III of the Estimates. Our review indicated that 15 of the 22 studies reported in the Estimates (68 per cent) both identified the evaluation and summarized the findings in a general way. Four of the 15 departments did not report any information concerning their studies in the Part III Estimates. It should be noted that some of these studies may not have contained information relevant to program performance and/or resource management.

14.23 In the 1983 chapter, we noted that only one program evaluation report had been tabled in the House. We recommended that the "Government should establish procedures to ensure that the recommendation of the Public Accounts Committee (in its report to the House dated 18 July 1980) with respect to tabling program evaluation reports is acted on."

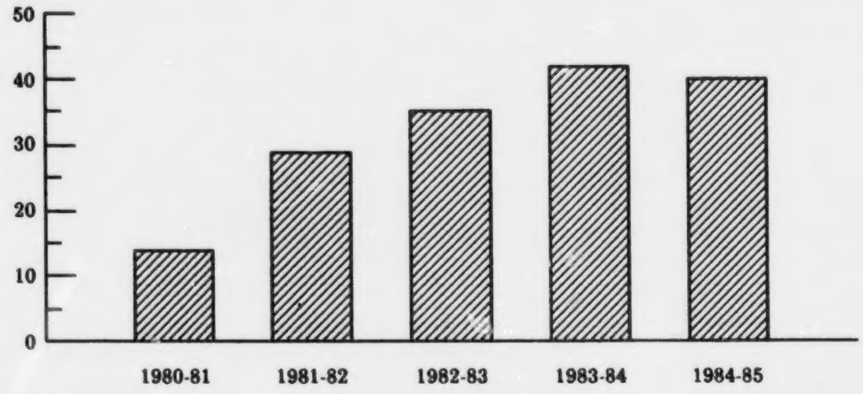
14.24 In response, the Office of the Comptroller General noted that, in addition to providing summaries of pertinent findings in Part IIIs, access to information legislation provides for any member of the public to request a particular evaluation study. Seven departments have responded to requests from Members of Parliament for evaluations studies under access to information legislation. In addition, a few departments have widely distributed a number of their evaluations in response to less formal requests. We also note that, in January 1984, the President of the Treasury Board provided the Public Accounts Committee with a list of the evaluation studies that had been completed in the previous two years.

Program Evaluation Initiatives

14.25 Overall, the annual number of corporate program evaluations carried out by the 18 departments has remained stable (see Exhibit 14.3) since 1983.

Exhibit 14.3

COMPLETED
PROGRAM EVALUATION STUDIES



Note: The counts for all years are based on the departments and agencies listed in Exhibit 14.4.

14.26 Eighty-two evaluation studies were completed from 1 April 1983 to 31 March 1985. A list of these is in Exhibit 14.4. We did not audit the quality and use of these studies.

14.27 In the 1983 chapter, we reported that the National Parole Board and the Solicitor General Secretariat had not attempted any corporate evaluation assessments or studies. Since that time they have both completed evaluation assessments and have program evaluation studies in progress.

14.28 In 1983, only 6 evaluation frameworks had been completed by the 18 departments and agencies. We recommended that "departments and agencies should

develop evaluation frameworks in conjunction with the design and early implementation of all new, substantially modified programs or, where appropriate, renewed programs."

14.29 There has been a significant increase in the number of frameworks; 23 were completed in 1983-84 and 1984-85.

Energy, Mines and Resources - Energy Program - 1983, Chapter 9

14.30 Our 1983 observations resulted in 16 recommendations in various areas of the Energy Program. In this follow-up, we dealt only with the status of implementation of recommendations concerning program evaluation at the corporate level and program evaluation and monitoring of the Petroleum Incentives Program (PIP).

Corporate Program Evaluation

14.31 The Department has increased the resource levels from $387,000 and 6 person-years in 1982-83 to $1,150,000 and 10 person-years in 1985-86. The current resource levels are considered by the Department to be adequate to complete the number of evaluation initiatives scheduled over a six-year period.

Evaluation and Monitoring of the Petroleum Incentives Program

14.32 **Scheduling.** In recognition of the problems related to the timing of the corporate evaluation of PIP identified in our 1983 Report, the Department has done preliminary work to address some of the main issues on an interim basis.

14.33 Our 1983 chapter recommended that the scheduling of program evaluation studies be co-ordinated to ensure timely information for the decision-making process. A revised plan rescheduled the evaluation assessment to 1984. It was completed in February 1985. The program evaluation was rescheduled to be completed by the fall of 1985 instead of 1986.

14.34 Before the program evaluation was started, the government announced the termination of PIP as part of the Western Accord. This indicates the difficulty of co-ordinating the scheduling of program evaluations.

14.35 **Scope of the evaluation.** Most of the important long-term effects of the program identified in our 1983 Report will be included in the program evaluation, with the exception of issues related to:

- the impact on Canadian control in the oil and gas industry of substituting foreign debt for equity; and
- the effectiveness of National Energy Program funds invested in exploration incentives relative to conservation measures.

FROM 1 APRIL 1983 TO 31 MARCH 1985, 82 EVALUATION STUDIES WERE COMPLETED

Agriculture

Production Risk Protection Programs (Crop Insurance and Other Compensation)	Nov. 83
Review of the Western Grain Stabilization Act - Phase II	Feb. 84
Evaluation of the Family Farm Assistance Program: Feed Freight Assistance Adjustment Fund and Contribution to CANFARM Cooperative Services	Mar. 84
Evaluation of the Family Farm Assistance Program: Farm Improvement Loans Act	Sep. 84
Evaluation of the Market Risk (Income Stabilization) Programs	Oct. 84

Canada Employment and Immigration Commission

Canada Employment Centres for Students	Jun. 83
Canada Manpower Industrial Training: Final	Jun. 83
The Quality of CEC Placement Services to Employers	Nov. 83
Summer Canada: The Effect of Summer Canada on Participant's Subsequent Employment Experience	Nov. 83
Summer Canada: An Evaluation of the Private Sector Internship Component of Summer Canada	Nov. 83
Evaluation of the Work Sharing Program	Apr. 84
Canada Manpower Training Program: Final	May 84
Local Employment Assistance Program	Jun. 84
Program for the Employment Disadvantaged	Jun. 84
Developmental Use of UI Funds for Job Creation (UI/JC)	Sep. 84
Industrial and Labour Adjustment Program	Sep. 84
Women's Employment Counselling Centres	Sep. 84

Communications

Special Program of Cultural Initiatives	May 84
Toronto International Festival	Oct. 84
Program for the Development of Space Subsystems and Components	Dec. 84

Consumer and Corporate Affairs

Metric Commission	Apr. 83
Energuide	Mar. 85

Correctional Service

Employment of Inmates: Cost Recovery and Offsets	Apr. 83
Evaluation of Patient Pay	Jul. 83
Comparative Analysis of Regional Headquarters	Aug. 83
Costing of Correctional Models	Sep. 83
Staffing Study of Institutional Health Care Centres	Jan. 84
Corcan/Unicor Comparative Study	May 84
Report of the Study Group on Murders and Assaults in the Ontario Region	May 84
Greviste de la Faim	Sep. 84
Duty Roster Review	Nov. 84
Release on Mandatory Supervision of Mentally Disturbed and Dangerous Inmates	Jan. 85

Energy, Mines and Resources

Impact of Regional Mineral Affairs Function: Mineral Subsidy Agreements	Jul. 83
Canadian Home Insulation Program	Nov. 83
Statistics and General Information Component of the Mineral Development Activity	Dec. 83
EMR Remote Sensing Activities	Dec. 83
Forest Industry Renewable Energy Program	Oct. 84
Class 34 Accelerated Capital Cost Allowance	Nov. 84

Fisheries and Oceans

Pacific Surveillance and Enforcement	Jun. 83
Fisheries Improvement Loans Act	Jun. 84
Lobster Vessel Certificate Retirement Program	Jun. 84

Follow-up and Status Report

Exhibit 14.4

Indian Affairs and Northern Development

Manitoba Indian Agricultural Program	Apr. 83
Elementary/Secondary Education	Apr. 83
Band Economic Development - B.C.	Aug. 83
Association of Canadian Universities for Northern Studies	Aug. 83
Comprehensive Claims	Oct. 83
Inuit Culture and Linguistics	Dec. 83
Dakota/Ojibway Child and Family Services	Jun. 84
Inuit Circumpolar Conference	Jul. 84
Community Social Services - On-Reserve Status Indians and the General Population of Alberta	Aug. 84
Canada/Newfoundland Native People of Labrador Agreement - Phase I	Sep. 84
Norman Wells Mid-Project Evaluation	Oct. 84
Okanagan/Nicola Indian Quality of Education Study	Nov. 84
Post-secondary Education Assistance	Jan. 85

Labour

Conditions of Work Program	Jan. 84
Labour Canada Survey of Wages and Working Conditions	Mar. 85

National Library and Public Archives

Government Records and Reference Services	Apr. 83
Awareness Evaluation Study	Jul. 83
Bibliographic and Communications Network Pilot Project Evaluation	Feb. 84

National Revenue - Taxation

Enforcement of Return Filing	Jun. 83
Public Enquiries	Nov. 83
Revenue Programs	Dec. 83
Basic File Program	Jun. 84
Appeals (Income Tax)	Jan. 85

Royal Canadian Mounted Police

Identification Services/Field Identification	Jan. 84
Federal Drugs	Mar. 84
Forensic Laboratories	May 84
Police Dog Services	Sep. 84
Air Services	Oct. 84
Airport Policing	Dec. 84

Secretary of State

Native Representation Organizations	Sep. 84
Multiculturalism Majority Advertising	Sep. 84

Statistics Canada

External Trade	Jun. 83
Financial Flows	Jun. 84

Transport

Airport Support Services to non-CATA Agencies	Apr. 83
University Program	Apr. 83
Air Navigation Support for non-CATA Agencies	Jul. 83
R & D Arctic Marine	Oct. 83
R & D Rail Freight	Jan. 84
Water Transportation Assistance	May 84
Ab-initio Air Traffic Control Training	Jun. 84

Veterans Affairs

War Veterans Allowance Program	Jul. 83

Both topics have been specifically excluded from the terms of reference of this evaluation, although it should be noted that many conservation programs have been evaluated separately.

14.36 **Monitoring.** In 1983 we recommended that the Department implement a monitoring system for the Petroleum Incentives Program. Since then, a computerized information management system has been put in place that includes information on applications, applicants, eligibility, claims, activity and payment. In addition, data continue to be received on the status of oil and gas activities on Canada Lands, activity in the provinces, discoveries, and estimated and potential reserves.

14.37 The monitoring system now in place has been used to develop a data base for evaluation of the current program. It also provides a basis for evaluating new programs in this area.

14.38 An evaluation framework and an evaluation assessment were completed under the revised schedule. The program monitoring system meets the evaluation requirements as set out in the evaluation assessment.

Parks Canada - 1983, Chapter 10

14.39 The Office's observations resulted in 11 recommendations related to 5 aspects of Parks Canada's operations: managing new park acquisition and development; information relating to program delivery; managing professional staff; resolving the status of Banff and Jasper townsites; and revenue policy.

14.40 We conducted a follow-up study to determine what actions have been taken by Parks Canada in response to the observations and recommendations.

Managing New Park Acquisition and Development

14.41 Since the audit, Parks Canada has been under a period of constraint and new initiatives on capital projects have been very limited.

14.42 The Systems Planning Division of National Parks and the Program Socio-Economic Branch have been conducting studies for future acquisitions with due attention to cost implications. In the case of the Northern Yukon park proposal, the costs were carefully identified.

14.43 An approved plan for the development of Dawson City still does not exist, but internal documentation is available for input to a development proposal should Parks Canada be in a position to seek funding for developing the site. Historical data on the restoration costs of individual properties at Dawson City are not complete but the planned expenditures on each have been identified. The status of Bear Creek depends on the Dawson

City plan. The decision at this stage is to maintain the project but limit expenditures to those required to stabilize the existing buildings.

14.44 No Treasury Board or Cabinet approval has been obtained for the development of Steveston Cannery. In addition to the $480,000 previously spent, as noted in our 1983 audit, a further $120,000 has been spent on planning; however, there is still no final decision on how and when to proceed with developing the site. The Steveston Cannery building, which is in an advanced state of deterioration, was acquired in 1984 from the Department of Fisheries and Oceans.

14.45 Parks Canada has updated its list of historic sites and recommendations of the Historic Sites and Monuments Board but has not yet produced an updated analysis of the backlog of properties for acquisition/development and their physical state. However, criteria have now been established for setting priorities for implementing the Board's recommendations that apply to cost-sharing arrangements.

14.46 There have been some improvements in project control systems. Capital projects are more clearly listed in the Main Estimates. However, we found a problem with the presentation of total park development costs in the case of Grasslands: the estimated total property acquisition cost is listed at $8 million in the current Estimates whereas in the 1982-83 Estimates it had been listed at $83 million. Parks Canada points out that the difference is because the 1984-85 Estimates, in accordance with Treasury Board's request, include only the planned costs for a five-year period.

Program Delivery

14.47 **Resource management and public safety.** We were informed that corrective actions have been taken concerning potentially hazardous conditions on certain highways and bridges. For example, of six bridges identified as needing upgrading, two were replaced, three were repaired and the other is under review. The water supply problem at Banff has been corrected. Various directives in the area of public safety have been issued and others, on such issues as water quality and sewerage effluent standards, are being prepared.

14.48 **Attendance statistics.** Parks Canada has taken steps to improve data collection methods and accuracy and has clarified measurements of park use. It does not agree, however, with the need to distinguish between through traffic and other park users in reporting attendance statistics.

14.49 **Economic impact.** Parks Canada continues to publish some summary data on the economic impact of its program, such as in Part III of the Estimates, without the help of interpretive information. It does not agree that there is a need to change its reporting.

14.50 **Program activity structure and cost accounting.** A program activity structure has been developed by Parks Canada and the multi-year operational plan has been produced using the new framework. This has had interim approval from Treasury Board and formal approval was to be sought by August 1985. Parks Canada is also implementing work planning and identifying performance measures.

14.51 **Management information.** A Management Information Framework has been developed which is intended to clarify responsibilities and accountability at all levels for parks development, acquisition, operations, controlling and monitoring. It is too early to assess its usefulness.

14.52 Parks Canada has taken action to improve its financial and operational information systems. The systems installed to date, however, are not yet all linked together. This interface is necessary before Parks Canada can achieve the economies and other results expected.

14.53 The major overhaul of the program activity structure under way is designed, among other things, to co-ordinate the maintenance management system and the financial system.

Managing Professional Staff

14.54 Parks Canada has reviewed the role, activities and performance of the Engineering and Architecture function. There have been changes in the emphasis of the work. Functional reviews have been established. The costs of the engineering component – the design and project management aspects – of capital projects are being monitored. The Socio-Economic function has been active in reviewing regionally-prepared project proposals and has attempted to improve socio-economic analysis through a user guide, functional reviews and development of models. Historic research projects are identified in terms of purpose, completion date, resources required, and product to be produced. Progress, however, is still not formally reported to senior management.

14.55 The costs related to the operation of the Historic Sites and Monuments Board are now separately identified in Part III of the Estimates.

14.56 Parks Canada management has reviewed our recommendation on the need for independence of the Board and does not consider that any changes in the Board's relationship with Parks Canada are warranted because Parks Canada believes the Board is already independent.

The Status of Banff and Jasper Townsites

14.57 There are now cost accounting reports for the townsites of Banff and Jasper. These reports are appropriate for townsite costing but, at present, are produced manually from the financial and maintenance management systems. Plans for computerization, however, include costing for Banff, Jasper and other communities.

14.58 Parks Canada has forwarded for the Minister's review various options in respect of both townsite management and cost recovery. Approval has been obtained to increase townsite utility charges by 35 per cent in 1985-86 and by further annual increments until appropriate municipal costs are recovered. Meetings have also been initiated to review the implications of self-government for these townsites.

Revenue Policy

14.59 In 1983, management developed a revenue plan called Parks 2000 which was related to potential revenue generation tied in with parks expansion. Budget restrictions have limited expansion plans and Parks 2000 was never sent to Cabinet. Parks Canada is proceeding to implement changes in fee structures.

PAC Recommendations

14.60 The Public Accounts Committee in its Third Report dated 8 May 1984 recommended that:

(a) Parks Canada prepare a report for your Committee by 31 October 1984, on its progress in developing and implementing the long-term capital plan, in resolving the problems of the Banff and Jasper townsites, and in responding to all other recommendations of the Auditor General; and

(b) Parks Canada consult with the Auditor General in the review and assessment of all major initiatives taken in relation to the findings of his comprehensive audit.

14.61 Parks Canada has provided the following response to the PAC recommendations, in addition to its earlier response to those in the Auditor General's Report:

(a) Parks Canada was advised that the requirement to table a formal report to the Committee was eliminated by the dissolution of Parliament on 9 July 1984, and consequently did not table a response.

A long-term capital plan is being finalized and is expected to be submitted to Treasury Board for approval in the near future.

(b) Parks Canada has responded to and provided scheduled implementation dates for all recommendations in the Auditor General's Report.

Department of Transport - Marine Transportation Program - 1983, Chapter 13

14.62 In the 1983 chapter on the Department of Transport - Marine Transportation Program, we reported our overall findings and also made a number of specific recommendations.

14.63 With respect to overall findings, we commented that, despite identification over the previous decade of areas requiring improvement, the departmental response had not yet resulted in significant change. We included specific reference to areas such as:

- analysing the needs of mariners for services provided by the Coast Guard and defining the appropriate service levels as a prerequisite to justifying requirements for vessels and navigational aids;
- remote monitoring of automated lighthouses and further reduction of personnel levels through unmanning; and
- assessing needs and cost-benefits for Vessel Traffic Services.

14.64 Another significant matter that we addressed was the Fleet Capital Investment Plan which outlines a scheduled approach to replacing the Fleet at a cost of $2.5 billion over 30 years. We pointed out that this Plan was not based on defined levels of service. Thus, in our opinion, the size and composition of the fleet required by the Coast Guard could not be related adequately to need.

14.65 With respect to the system of marine navigation, we commented on areas where cost savings of $10 million to $20 million annually would be possible through improvements such as:

- completing the Lighthouse Automation Program started in 1970;
- revising the standards for checking and maintaining buoys;
- reassessing the continuing need and specific equipment requirements for some of the Department's Vessel Traffic Services systems; and
- increasing automation and consolidation of the Coast Guard radio stations.

14.66 In the areas of marine safety, we noted that, although the Department collects data on the marine accidents it investigates, it does not systematically analyse all these data to monitor relative levels of marine safety by type of traffic and degree of risk. Such analysis could assist the Department in recognizing accident patterns and in planning appropriate and timely action.

Results of Follow-up Review

14.67 The Department has had a formal follow-up procedure to address our specific recommendations and has achieved differing levels of progress in response to them. The scope of our follow-up work covered the overall findings as well as the specific recommendations.

Overall Concerns

14.68 With respect to our overall concerns, we noted that the positive effects of departmental response to areas requiring improvements are still, in many cases, years away.

Level of Service

14.69 The Levels of Service Project is an example of this kind of response. We noted the positive commitment of the Department in 1983 to this important topic. This major project to analyse needs of mariners and define appropriate levels of service began in 1984. It covered short-range aids to navigation and icebreaking. The exercise, however, has not been completed. The Department informs us that a pilot project has been finished, but that progress on the project has been delayed by Treasury Board's refusal to approve the additional resources needed to complete the work. The project is now scheduled to be completed in April 1986. However, the time needed to prepare and submit the Treasury Board Submission and the Cabinet Document required to support the levels of service recommended will extend beyond the project completion date. Implementation will begin only after approvals have been received. We are concerned about the length of time before benefits, including the relationship between the size and composition of the fleet and the approved levels of service, will be realized.

14.70 Furthermore, in our 1983 chapter, we noted that cost recovery is an important requirement of the Department's strategic plan. Cost recovery could have a major influence on demand for marine services and, as a result, on levels of service. In 1983 we wrote that "when determining an appropriate level of service for an activity, the Department will need to assess the impact of cost recovery on demand for the service".

14.71 We noted that the Levels of Service Project has been operating independent of cost-recovery considerations. Our concern is that defining levels of service without dealing with cost recovery and its inherent restraining effect on demand for marine services can raise questions about the adequacy of the scope of the project and threaten the achievement of its objectives.

14.72 The Department informs us that authority for implementing cost recovery is being sought through amendments to the Canada Shipping Act.

14.73 There has been limited response to the recommendation that the Coast Guard should improve its cost information on aids to navigation. The departmental cost accounting system that was to be a solution does not yet go to the necessary level of detail. The Department notes that developing a costing methodology is an integral part of the Levels of Service Project.

Lightstation Automation

14.74 The original Lightstation Automation Program began 15 years ago. To date, over 40 lightstations out of a total of 272 have been successfully unmanned. The Department informs us that the potential for further remote monitoring and unmanning is being reassessed to determine the impact on users as well as the cost and political implications. Based on this assessment, further decisions on unmanning lightstations will be made.

Floating Aids

14.75 In response to the recommendations in this area, we note that the Department has taken action by issuing guidelines for the installation of buoys. Work has also advanced on the development of maintenance standards. Similarly, development of a policy on cyclical review of all floating aids is near completion and, in some cases, regions have started their review.

14.76 With respect to revising buoy checking standards, we pointed out in 1983 that reducing the frequency of checking could result in substantial savings without affecting the overall level of safety. Operational requirements for vessels are significantly affected by the requirements for the checking of such aids. New standards for checking frequency, issued as part of departmental cost-reduction measures, have been promulgated as the minimum standards, to be adhered to unless circumstances justify deviation. Initial savings of $400,000 have been identified through cost-reduction measures. The Department informs us that any further savings are and will be reflected in current and subsequent updates of the Fleet Capital Investment Plan.

Vessel Traffic Services

14.77 Progress and cost savings have been realized in this area. As a result of the 8 November 1984 expenditure reduction initiatives announced by the Government, two Vessel Traffic Services locations were to be closed (Eddy Point in March 1985 and Placentia Bay in the fall of 1985) and levels were to be reduced at three other sites. Forecast savings for 1985-86 are $1.2 million.

14.78 Similarly, consolidation and automation of radio stations are under way.

Marine Safety

14.79 The Department had committed itself to developing a systematic analysis for monitoring the level of safety in all major areas of risk, so that it could improve its methods of identifying situations where effort should be redirected and improve its information base for responding to pressures external to the Department.

14.80 A shift of organizational responsibility, moving the Casualty Investigations Branch out of the Coast Guard and into the Marine Administrator's area, has been cited by the Coast Guard as the reason that activity has ceased on implementing our recommendation. However, while its input may be important, Casualty Investigations Branch is of the opinion that its role does not include determining areas where corrective measures are required. It is therefore important that the Marine Administrator follow up on the recommendation and assign responsibility for implementing it. The Department has informed us that it is currently involved in implementing the recommendations contained in the Study on Marine Casualty Investigations in Canada (the Deschênes Report), reported in July 1984. The Department will address our recommendation in conjunction with the recommendations of the Deschênes Report.

Other Points

14.81 Other specific recommendations included:

- *Regular review of fees for ship inspection services* - The Department is undertaking the action necessary to effect a 100 per cent increase in ship safety fees.
- *Increase efforts to assess preparedness of marine personnel in simulated emergency situations* - The Department is conducting a detailed survey; the results will be reviewed to determine if corrective action is warranted.
- *Review the level of foreign flag vessel compliance with Canadian regulations and take action, if necessary, to improve compliance.* The Department has completed a survey and concluded that the level of compliance in this area is satisfactory and that no further action is necessary.

14.82 We had also noted that, in connection with the Eastern Arctic Sealift, an amount of $2.1 million was due from a carrier of cargo and was in litigation. The claim was subsequently revised by the Department to $1.4 million. The carrier is in bankruptcy and, as a result, negotiations with the trustee for recovery are under way.

Conclusion

14.83 There has been mixed progress in responding to the various recommendations made in 1983. Overall, we remain concerned with the amount of progress. We are also concerned that, despite a generally positive response to our recommendations in 1983, when significant cost savings were identified as being available, actual savings will not approach such a level for a significant period of time.

14.84 The Department points out that progress is limited by environmental considerations such as impact on employment and the economics of the shipping industry and that these factors must be taken into consideration when assessing progress.

Canada Employment and Immigration Commission - Immigration Program - 1982, Chapter 7

14.85 The Office's observations on the Immigration Program resulted in 16 recommendations in the areas of operations, control and monitoring systems, evaluation of program effectiveness, and evaluation of program efficiency.

Follow-up and Status Report

14.86 We conducted a follow-up study to determine what action the Canada Employment and Immigration Commission (CEIC) had taken in response to our 1982 audit. Our follow-up consisted of examining the steps taken by CEIC National Headquarters to address the recommendations in the 1982 Report. No follow-up review was undertaken in the regions or abroad.

Recruitment and Selection

14.87 The requirement that an immigrant "will be able to become successfully established in Canada" defines the legal basis for the entire immigration selection process.

14.88 Nevertheless the Commission affirmed in a "Background Paper on Immigration Intake/Composition/Class Components and Immigration Settlement Services", published shortly after our 1982 audit, that "under the existing policy of family reunification, immigrants with much less potential for successful settlement are also admitted."

14.89 In pre-assessment studies of the components of the Immigration program conducted in 1983, CEIC's Program Evaluation Branch concluded that a clear understanding of what constitutes "successful settlement" would also be necessary before any statement on program effectiveness would be made.

14.90 However, the definition of "successfully established" is still open to diverse interpretations within CEIC. The Commission has not developed an operational definition by identifying the characteristics of immigrants that have established themselves successfully. Thus, CEIC has not resolved the issue raised in our 1982 Report – to evaluate its program effectiveness in selecting immigrants in the family class. As a result, the Commission is not in a position to recommend appropriate changes in the selection criteria or to modify its procedures to ensure that the immigrants it selects have the ability to become "successfully established in Canada".

14.91 On the basis of regulations made under the Act for selecting members of the family class, CEIC only determines whether the health, security status and family ties of sponsored immigrants meet the criteria for the family class. Given this limited role and CEIC's interpretation of the phrase "successfully established in Canada", we believe that, for the family class, the process is not really one of selection. However, the Commission does not believe it would be worthwhile to make any more rigorous assessment of whether immigrants seeking entry to Canada as members of the family class have the ability to become successfully established.

14.92 The Commission has studied the extent of abuse of the family class selection criteria by courier parents and through marriages of convenience. It has found no evidence that abuses are widespread. However, following a court decision, immigration regulations have been changed in an attempt to curb marriages of convenience.

14.93 The Commission's plans for 1985 include setting up systems to monitor the granting of landing to people already in Canada. In the longer term, the Commission intends to monitor the issuing and renewal of Minister's permits.

Enforcement

14.94 Since 1964, Customs officers have performed the primary examinations for immigration purposes of persons arriving in Canada. However, it was only in October 1983 that Revenue Canada and the Commission concluded a formal agreement that defines the immigration responsibilities of Customs and Excise. This agreement took effect in May 1985 and calls for prior training in immigration matters for customs officers conducting primary examinations.

14.95 However, because no effectiveness indicators for the primary examination exist, CEIC has not been able to specify an acceptable level of performance for the task, and Customs and Excise has not been able to make a commitment to achieving a precise and verifiable level of performance. To rectify this shortcoming, CEIC began a study in January 1985 of primary examinations at Canada's three largest airports. In this way, the Commission hopes to be able to establish performance indicators and effectiveness standards that Customs and Excise would agree to meet.

14.96 The Analysis and Intelligence Directorate's 1985 plans also include setting up systems to monitor the admissions authorized at the secondary examination stage.

14.97 The Commission continued efforts already under way at the time of the 1982 audit to improve the analysis and use of the information gathered by the intelligence network. New "Terms of Reference for Intelligence Services" were prepared and distributed in October 1984. As well, an annual projects plan is sent to the regions to enlist their support and help them establish priorities.

14.98 The need for clarification of the role of investigators was corroborated by a CEIC study on officers' safety and security. This study also reported the investigators' and other immigration officers' need for work instruments and technical knowledge.

14.99 At the time of the follow-up, CEIC was preparing a policy statement on the roles and responsibilities of investigators that will be the subject of a new chapter in the Immigration Manual; it was also in the process of planning the implementation of the study recommendations.

Settlement

14.100 In early 1985, CEIC approved new guidelines and procedures for the Adjustment Assistance Program. Interim guidelines had been issued in March 1984.

14.101 The new guidelines include practical examples that should help to ensure that Canada Employment Centre officers make the same decisions in similar cases.

14.102 Our 1982 Report noted that the Commission had already taken steps to install a new computerized control system for the $60 million revolving advance used to make loans to immigrants. The system, which was to have been implemented in September 1983, did not become operational until January 1985. However, procedures for using the system are still at the draft stage.

Control and Monitoring Systems

14.103 National Headquarters has taken steps to collect information that would reveal statistical anomalies in regional and Immigration Centre activities over a given period. At a later and as yet undetermined date, the Immigration Group will use these statistical anomalies as a basis for conducting field audits to check whether decisions made by immigration officers in favour of applicants comply with the Act, Regulations and guidelines issued by the Commission.

Evaluation of Program Effectiveness

14.104 The 1983 pre-assessment study of the settlement component of the Immigration program previously referred to showed that the Commission had not identified adjustment criteria for assessing whether immigrants had adapted; in the absence of such indicators, no evaluation of the recruitment and selection and settlement components was possible.

14.105 As noted previously, CEIC had undertaken studies on primary examination effectiveness.

Evaluation of Program Efficiency

14.106 The Commission has technical standards ready for most of the measurable activities carried out in the recruitment and selection component of the Immigration program. This component accounts for about 30 per cent of the program's resources. Devised through time and motion studies, these standards are designed to measure efficiency.

14.107 The work involved in arriving at these standards began early in 1981 and was completed at the end of 1984. The standards are not yet in effect.

14.108 In addition, at the time of the follow-up, the Commission had undertaken to measure the enforcement activities component which uses almost 40 per cent of Immigration program resources. The Commission expects this to be completed by 1987 or 1988.

14.109 In the last quarter of 1983, the Commission began to publish quarterly reports on regional and national productivity in the Immigration program, without reference to the technical standards.

14.110 The reports cannot be used to justify resource allocation as they are based on historical productivity data. Still, regions where productivity is below average can be identified and recommendations to improve their performance can be made.

National Health and Welfare - 1982, Chapter 12

14.111 Our 1982 audit focused on the Department's five main program branches. This follow-up covers all major observations and the 14 recommendations we made in 1982. However, it should be noted that:

- The follow-up on observations and recommendations pertaining to the Old Age Security and Canada Pension Plan programs in the Income Security Programs Branch was addressed as part of our audit of public pension management and accordingly is reported in chapter 4 of this Report. Consequently, our comments with respect to the Income Security Programs Branch in this chapter relate only to the Family Allowance program.
- As part of our regular cycle of audit activities in the Department, a comprehensive audit of the Indian and Northern Health Services is scheduled to be undertaken in 1985-86. Therefore, a further follow-up of what is reported below concerning Medical Services Branch will be carried out at that time.

Overall Conclusion

14.112 Although all our observations have received serious study and consideration by the Department, not all recommendations have been implemented. In some instances, corrective action has been immediate and substantive; in other cases, action has been slow.

Social Service Programs Branch - Canada Assistance Plan

14.113 The Canada Assistance Plan (CAP) is one of the most significant social assistance programs in Canada. Through it, the federal government funds 50 per cent of the cost of provincial social assistance and welfare services to people in need. Currently, an estimated 2.5 million Canadians (the same number as in 1981-82) receive some form of assistance under CAP. The federal government's share of the cost in 1984-85 was $3.6 billion ($2.4 billion in 1981-82).

14.114 In both our 1978 and 1982 annual Reports, we commented on the need to improve substantially the documentation, communication and application of policies and administrative and financial procedures for the program. The absence of properly documented guidelines, responsibilities and procedures has resulted in lengthy delays in the settlement of provincial claims and inadequate direction and monitoring of the federal field representatives who play a key role in the approval of payment of funds to the provinces.

14.115 In our opinion, the length of time being taken to complete these initiatives has been very unsatisfactory and, as a result, many of the same administrative problems still exist. For example, because of the absence of definitive guidelines and unresolved cost-sharing issues with the provinces, provincial claims dating from 1977-78 have not been finalized and settled.

14.116 We are pleased to note, however, the increased emphasis given by current management to addressing our concerns.

Guidelines and Manuals

14.117 We noted in 1982 that major initiatives were under way to develop guidelines and manuals. In late August 1985, the cost-sharing guidelines were officially transmitted to all provinces and the comprehensive financial procedural manual was distributed to field offices. However, the policy manual, although largely completed, will not be released formally until November 1985; a study to review the feasibility of consolidating various levels of audit activities was still in the initial stages.

Federal Field Representatives

14.118 These representatives are responsible for reviewing and certifying provincial claims that form the basis for determining federal contribution payments to the provinces. We found that there is a continuing lack of strong direction and monitoring provided by headquarters to the field representatives. In addition to the lack of documented directives, senior officials of Field Operations were absent, without replacements, for most of the past year. Moreover, during our visits to field offices in May 1985, we found that the federal representative positions (PM-5) in two provinces have been underfilled by junior officers (PM-2) for some time. In July 1985, the Branch began to reorganize the CAP organization and to strengthen the authority of the field representatives.

Management Information Systems

14.119 In 1982, we pointed out that more extensive use of information on provincial welfare programs was needed to ensure more efficient administration of the Canada Assistance Plan.

14.120 At present, the use of information available from federal and provincial sources appears generally satisfactory. However, there is an urgent need to computerize management information systems for the administration of the Plan. A proposal for this purpose was approved by senior management of the Branch and submitted to Treasury Board for funding.

Medical Services Branch - Indian and Northern Health Services

14.121 In 1982, we made a number of observations on the Department's activities that involve providing health services to registered Indians and Inuit resident in the provinces, and to all residents of the Yukon and the Northwest Territories. Cost of these services was $196 million in 1981-82 and $337 million in 1984-85. In making our recommendations, we pointed out the complexities involved in delivering these services. Some of the factors are the geographic dispersion and isolation of the population, the variety of native cultures, languages and needs, and the fragmentation of jurisdictional responsibilities.

Policy and Co-ordination

14.122 We commented in 1982 that, although the Department had begun to develop a position paper, little progress had been made on a comprehensive interpretation of the 1979 Indian Health Policy. Since then, there have been several policy papers prepared and studies carried out that have clarified specific aspects of the Policy. Particular emphasis has been placed on giving Indians and Inuit a greater role in the delivery of health care services. As well, the Branch has developed Health Care Standards and has integrated them in its operational planning documents.

14.123 We also noted in 1982 that there was limited co-ordination of activities with the Department of Indian Affairs and Northern Development (DIAND) for the delivery of Indian and Inuit programs. Better co-ordination of activities has since been achieved through appointing a senior co-ordinating consultant in the Branch and through specific agreements reached with DIAND.

Non-insured Health Services

14.124 We recommended in 1982 that the Branch place greater emphasis on the development of appropriate program delivery standards and central co-ordination mechanisms to ensure uniform delivery of non-insured health services. The annual expenditures for this category of services continue to escalate – $81 million in 1982-83, $96 million in 1983-84 and $116 million in 1984-85.

14.125 The Branch states that many program expenditure decisions are made on the basis of the judgement of health professionals and are affected by regional fee and price differentials. As a result, most directives and procedures for ensuring uniform delivery standards for non-insured health services are developed and implemented on a regional basis. However, a Branch study indicates that some consistency exists in these regional directives and procedures.

Reimbursable Services

14.126 In 1982, we noted that, because of the absence of documented guidelines, inaccurate cost information and the resulting low priority given to recoveries, the Branch was absorbing a large portion of the costs incurred in providing reimbursable services. The Branch has now completed the two costing studies that were under way at that time. Most recommendations contained in one study have been implemented and it is expected that the procedures recommended in the other will be implemented by December 1985.

Contribution Agreements

14.127 In 1982, we recommended that the Branch modify its management information system to permit more effective monitoring of contribution agreements. The policies and procedures needed to ensure the fulfilment of the terms and conditions for all contributions were promulgated in August 1983 and the Branch now has an active Contribution Audit Section. However, the existing management information systems do not yet provide management with enough program information to monitor contribution agreements effectively.

Health Protection Branch

Laboratory Safety

14.128 We reported in 1982 that air handling systems in several of the Branch's 12 laboratories were not adequate for work with hazardous substances and were creating potentially hazardous work environments. The lack of a complete understanding between the Branch and the Department of Public Works regarding respective responsibilities for the maintenance of Branch laboratories and inadequate safety practices in several of the facilities were contributing factors. At that time, the Department was taking action to address these deficiencies. In particular, those facilities found to be the most inadequate were being given highest priority for renovation. Funds of $48.5 million were approved in principle by Treasury Board in March 1982 to upgrade existing facilities over a 10-year period.

14.129 Since that time, the following has occurred:

- The Department continues to give high priority to monitoring the progress of the renovation of the existing facilities and construction of new ones that began in 1982-83. It is expected that this upgrade will be completed by 1992. The estimated cost is now $197 million. This includes a new facility for the Laboratory Centre for Disease Control and Virus Operations, and funds for building maintenance.

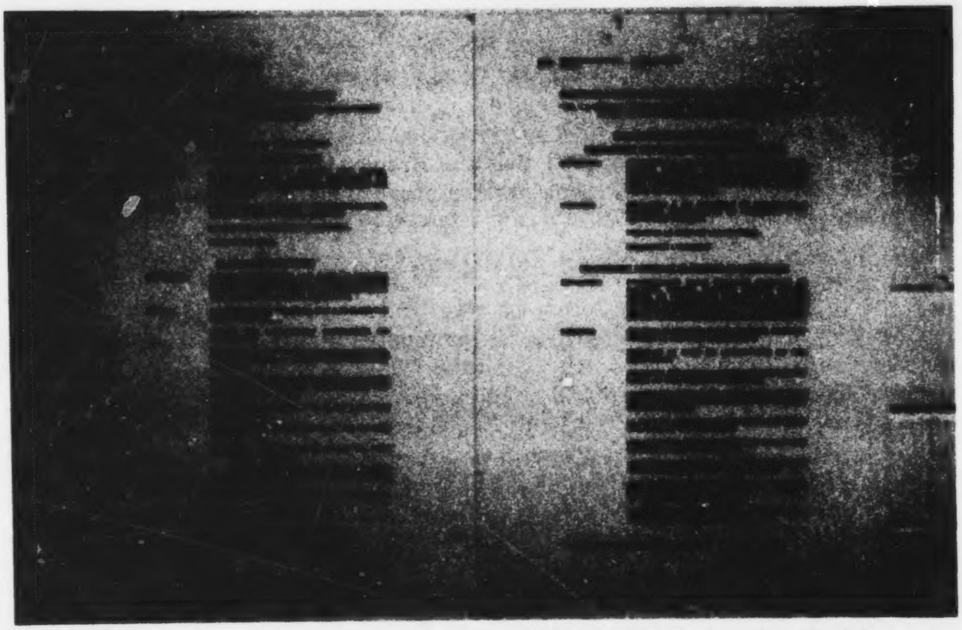
- Responsibilities for maintaining the laboratory facilities have been clarified with the Department of Public Works and have been documented. Branch management advises that this has resulted in improved maintenance service in the laboratories.

- There have been considerable improvements in safety practices in the laboratories. These include implementing branch-wide inspection procedures and establishing contingency plans (see Exhibit 14.5). Most instances of improper waste storage have been rectified (see Exhibit 14.6).

Income Security Programs Branch

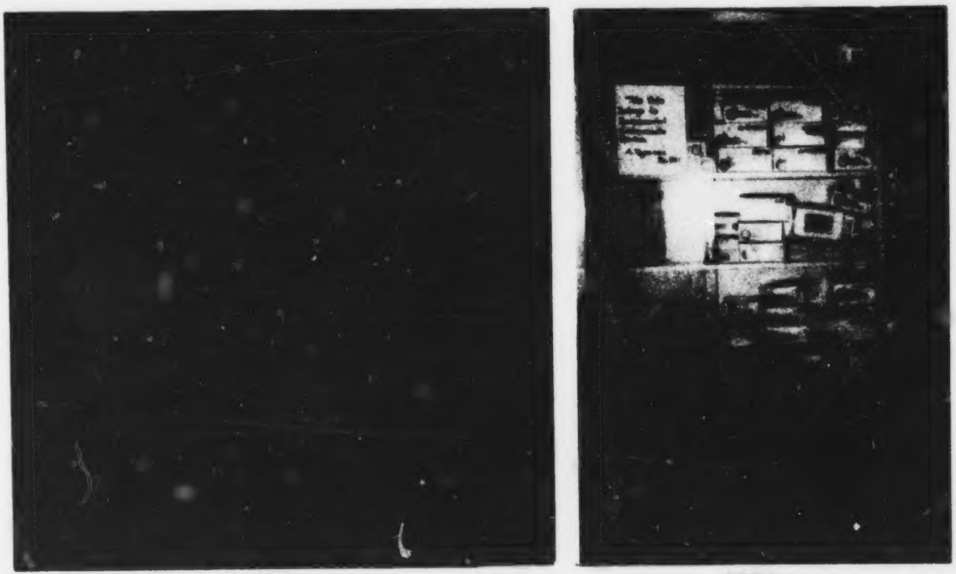
14.130 The Income Security Programs Branch is responsible for administering the Family Allowance, Old Age Security and Canada Pension Plan programs. Our 1982 audit

Exhibit 14.5



Contingency plans for laboratory accidents are prominently displayed in Health Protection Branch laboratories.

Exhibit 14.6



1982 *1985*

Most instances of improper storage of hazardous substances identified during our 1982 audit have been corrected.

focused on the adequacy of financial and EDP controls over benefit payments and performance measurement systems.

Family Allowance Program

14.131 We recommended in 1982 that the Branch ensure that Family Allowance recipients be made aware of income restrictions. This recommendation has been implemented.

14.132 In 1982, in response to our observation the Branch decided to carry out a national review of existing birth verification procedures and to implement new national procedures in the 1983-84 fiscal year. However, this review was not completed until November 1984. The new standardized procedures are expected to be implemented by the end of this year.

Health Services and Promotion Branch

Health Care Contributions to Provinces

14.133 Under the Federal-Provincial Fiscal Arrangements and Federal Post - Secondary Education and Health Contributions Act, 1977, the Branch administers payments for health care contributions to the provinces. Total payments to the provinces in 1984-85 were $10.6 billion (1981-82 - $7.9 billion), of which $6.3 billion was paid in cash and the balance in tax points.

14.134 In 1982 we commented on the fact that monitoring of compliance by the provinces with the conditions under which payments were made was limited. At that time, however, the federal government had announced that the national standards for health care would be clarified and would be incorporated in new legislation by April 1983.

14.135 The new legislation, the Canada Health Act, was proclaimed in April 1984, one year later than originally scheduled. Expanded program criteria and conditions have been incorporated in the new Act.

14.136 Following the change of government in the fall of 1984, a new series of consultations with the provinces is taking place. At a conference of Federal/Provincial Ministers of Health held in May 1985, the manner in which the Canada Health Act would be interpreted, implemented and administered was discussed. The Department expects that the current discussions will soon result in an agreement with the provinces. We have been informed that in the first annual report to Parliament, scheduled for December 1985, the Department plans to report, as required by the legislation, on the administration and operation of the new Act. The report will include information on the extent to which provincial health care insurance plans have satisfied the criteria and the extent to which the provinces have satisfied the conditions for payment under the Act.

14.137 In view of the fact that these consultations are still going on, we concluded that it was too early to carry out further work at this time. We plan to continue the follow-up in 1986, after the first report to Parliament is tabled by the Department.

Foreign Operations - 1982, Chapter 14

14.138 The audit of Foreign Operations reported in 1982 included the Department of External Affairs (the Department) and the programs abroad of the Canada Employment and Immigration Commission (Immigration program) and the Department of Industry, Trade and Commerce (Trade Development program). Responsibility for the Trade Development program was transferred to External Affairs on 12 January 1982.

14.139 The Office's observations resulted in 37 recommendations in 7 areas of Foreign Operations – program management, human resource planning, management of accommodation abroad, financial management and control, internal audit and inspection service, international trade development, and immigration abroad.

14.140 In its Twenty-first Report, dated 24 October 1983, the Public Accounts Committee made four recommendations resulting from its review of our 1982 Foreign Operations chapter. These recommendations were that:

- The report of the Department's task force include firm commitments on dates for the implementation of the Auditor General's recommendations on planning and financial management and that the Department advise your Committee of this timetable for implementation by March 31, 1984.
- The Department improve its personnel planning and assignment system for foreign service officers, implement the Auditor General's recommendations in this area, and report its progress in this regard to your Committee by March 31, 1984.
- The Department and the Treasury Board Secretariat immediately negotiate more appropriate rules governing property acquisition, and report progress to your Committee by March 31, 1984.
- The Department implement the Auditor General's recommendations on management of accommodation abroad and ensure that these recommendations are followed through with consistent, detailed plans of action of cost-effective acquisition and management of property and report progress to your Committee by March 31, 1984.

14.141 On 29 March 1984, the Department forwarded a detailed response to the Committee's recommendations including progress reports and action plans. This response was published in the proceedings of the Public Accounts Committee, Issue 8, dated 10 April 1984.

Follow-up and Status Report

14.142 At the time of our 1982 audit, the nature of the Department was changing because of the consolidation of the foreign service. To address our recommendations and other management issues, the Department developed the External Affairs Management Improvement Plan (EAMIP). Approved in March 1984, this plan contains 125 separate projects and addresses all the recommendations made in 1982. The degree of progress achieved against each recommendation varies.

14.143 In our follow-up we examined in detail recommendations concerned with financial management and control, accommodation abroad and immigration. For the four other areas, we obtained information on progress and initiatives taken, but did not do any detailed audit work.

14.144 In the areas of program management, internal audit and inspection service, and international trade development, the Department has undertaken activities to respond to our 1982 recommendations. The documentation and description of these activities are encouraging in terms of new systems being put in place to correct the deficiencies identified. Examples include a redesigned planning system and a revitalized Internal Audit and Management Review.

14.145 The Department has made little progress in human resource planning because the priorities of consolidation and Foreign Service Officer conversion to the Senior Executive classification have left little space for the Personnel Branch to react to many of our recommendations. We made recommendations concerning the Personnel Management Information System (PMIS), the assignment process, training, and the integration of personnel systems into other management systems.

14.146 The documentation needed to support PMIS has been developed. However, the computerized system is still not delivering timely reports and does not contain all the information needed by assignment officers. The Department has decided that major systems changes are required to satisfy the needs of assignment officers, and some progress is being made to implement them.

14.147 The assignment process requires that people with specific skills are identified for specific jobs. The identification of employees with specific skills is done mainly by using employee appraisal reports. The assignment officer's knowledge of his or her community also comes into play and discussions are held with program managers. Currently, the support branches (Physical Resources, Finance, etc.) are not consulted to determine whether the person being assigned has the prerequisite skills in administration. Personnel Branch is reorganizing its management of the rotational administrative officers to couple it with the management of the domestic officer category.

14.148 In the area of training, there has been increased activity for administrative personnel especially AS and CR officers, who are required to perform Office Manager and Consular duties abroad. Courses have been established in consultation with Physical Resources, Finance and Consular Affairs bureaux. However, courses are not compulsory and often operational demands preclude attendance at courses.

14.149 Also in the area of training and development, there has been some additional action. Consultants have prepared two reports and a training policy, long-term training priorities plan and training management framework have been developed. Further action is contingent on other key human resource management issues being considered by the Department.

14.150 The Department has integrated the identification of human resource needs into its operational planning process. Because of this, there is now a clear link between operational needs, resource constraints and person-year allocation and use.

Management of Accommodation Abroad

14.151 In this area, the Department has taken a number of steps that respond in large part to the recommendations made in 1982. In particular, the Department has refined, formalized and communicated its process for identifying accommodation needs and setting priorities. A Project Development Procedure Manual and an Activity Network were developed, setting out and explaining the steps to be followed during the front-end portion of projects, especially the project initiation and feasibility study stages. The Department adopted a computerized model to standardize and facilitate economic analysis of purchase/construction/leasing options.

14.152 There has been significant progress in three of four problem cases cited in 1982. In Lagos, where rents were escalating rapidly, construction is now scheduled to start in the fall of 1985 with completion planned for 1987. The Porta Latina property in Rome has now been renovated and furnished at a cost of $1.4 million, with occupancy in May 1985.

14.153 In Tokyo, the Department has established a short list of joint venture partners to develop the Crown-owned property. The selected developer is to provide, at no cost to the Crown, a stipulated amount of office and residential space in exchange for the rental rights, for a specific period of time, to the space in excess of Canadian needs.

14.154 The only project that has not made tangible progress is the Moscow complex.

Financial Management and Control

14.155 As reported to the Public Accounts Committee in 1982, the Department commissioned a task force to investigate issues related to financial management and propose solutions. The task force proved to be ineffective and alternative means were adopted to address our recommendations. At present, the financial manual is almost complete and was scheduled for distribution in the fall of 1985. A new Financial Reporting System continues to be developed and should be operational in 1987. The Senior Financial Officer is still not involved in the selection, professional development and performance evaluation of financial officers outside the Bureau of Finance and Management Services.

14.156 Finally, progress has been slow in modifying the role and methodology of the post accounts section. After the task force, the Department commissioned a complete review of the activity. The review was expected to take three months; it took one year. The Department accepted the report after a further five months of deliberation.

Immigration

14.157 There is a need to link strategic and operational plans, or levels and targets, to plan and manage the immigration process. Our 1982 report highlighted certain limitations in the planning process. The Department was not involved in the levels planning process and consequently had no reliable basis for determining the optimal number of foreign service immigration officers.

14.158 In 1984, the Department and CEIC established a formal consultative process for the levels planning exercise. The Department has refined its human resource planning process and is also attempting to rationalize deployment in assigning officers for temporary duty purposes in order to use the best available data and most economic and efficient approach.

14.159 In 1982, there was inadequate consultation between CEIC and the Department to ensure that the operational implications of guidelines were taken into consideration before being issued by the Commission. Interdepartmental consultation has improved, largely because of Interdepartmental Committee meetings that have been held since December 1983.

14.160 To address our concerns with respect to proper functional supervision over the program, CEIC and the Department signed an agreement in August 1984 that sets out the respective roles, responsibilities and authorities for internal audit of operations abroad.

14.161 The CEIC information system on the status of immigration cases abroad did not produce timely data in 1982. It still does not. However, the Department has planned a pilot project, scheduled to be implemented in November 1985, to computerize the processing and management of immigration records abroad. This should improve timeliness of the data and thus the Department's and CEIC's ability to monitor the program.

14.162 Control over visa forms was weak. CEIC has issued new directives governing the control over such forms and randomly conducts reviews of control logs requested from the posts. The Department is immediately notified of any discrepancy. Since October 1984, the Department has audited eight posts; no control weaknesses or discrepancies have been noted.

14.163 The Commission has studied the feasibility of recovering costs for services provided, such as immigrant visas. A proposal was prepared in August 1983. Since March 1984, CEIC has been discussing it with the Department. We have been informed that Cabinet approved the proposal in June 1985.

SECTION B

Departmental Representations

Management of the Forecasting Process
Department of Finance - 1983, Chapter 5

14.164 In 1983, the Office made a number of observations regarding the management of the forecasting process that resulted in 13 recommendations covering both this process and electronic data processing in the Department of Finance. The Department reports that implementation is considered complete with the exception that a hold has been placed on one of the recommendations dealing with EDP security pending a relocation planned for the summer of 1986.

14.165 As noted in the 1983 chapter, some initiatives were already under way while we were conducting the audit because of changes being made by the Department in the forecasting process. The following is a summary of the status report as provided by the Department.

The Forecasting Process

14.166 Detailed procedures were distributed to all forecast participants in the Department of Finance and are now operational. A committee provides senior management with a regular review at each stage of the process, including written reports of discussions and decisions. Within the Economic Forecasting Division, which became operational in November 1983, the Department has established the positions of Forecast Co-ordinator and Model Development Co-ordinator. Their functions include periodic review of the integrity of the Quarterly Forecasting and Simulation (QFS) model and the forecast.

14.167 Evaluation of the predictive capability of individual sector models has been a regular part of the forecast since before the 1983 Report. With each quarterly release of the National Accounts, a note is prepared analysing the sources of error in the previous forecast.

14.168 The internal consistency of the full model is now subject to regular review through the maintenance of an up-to-date library of model responses to standard shocks. These provide an indication of the appropriateness of the dynamic structure of the model. The model's ability to track historical data is also tested regularly.

14.169 The Branch Model Development Committee (BMDC) is now operational. All major modelling projects are preceded by a paper outlining the rationale, objectives, possible problems and required resources.

14.170 Written standards for documentation and testing of model-related research have been prepared and circulated by the Model Development Co-ordinator. The BMDC provides a format for review and appraisal of all model-related econometric studies.

14.171 The Economic Forecasting Division co-ordinates the Department's economic forecast and oversees model development. The Model Development Co-ordinator maintains a complete up-to-date version of the QFS Documentation Book. In addition, related procedures are fully documented in the QFS Model Handbook.

Electronic Data Processing

14.172 **Policy.** In December 1984, the Department published a policy on the acquisition and use of information processing facilities. This policy sets a general framework for planning and procuring EDP goods and services, and establishes roles and responsibilities for Branches, the Information Systems Committee (DACIS), the Data Services Unit, and the Systems Division.

14.173 The Department has set up a microcomputer support group in the Systems Division to assist users in acquiring and using microcomputer hardware and software. This group is now preparing a departmental microcomputer policy.

14.174 In March 1985, a policy on EDP security was published. It was developed and approved by DACIS and, under that group, a sub-committee was established comprising designated EDP security co-ordinators from each Branch. This sub-committee is chaired by the Departmental Security Officer, who is now responsible for recommending appropriate measures to DACIS for ensuring effective protection of EDP resources.

14.175 The Director of Financial Services has been designated as the departmental EDP co-ordinator, in accordance with Treasury Board policies, and is the senior officer responsible for departmental EDP activities. DACIS gives advice to senior departmental management on long-term plans for EDP and on acquiring and applying EDP facilities.

14.176 **Security.** The Department has not taken action on all the recommendations made by the RCMP as a result of its 1980 review because a relocation is planned for the summer of 1986. The Department has requested, and the RCMP has agreed to defer its review planned for 1985 until six months after the relocation.

14.177 Most security-sensitive forecasting is now done on the in-house computer. Following the relocation, all forecasting activities will be done in-house. A draft set of EDP standards has been produced for submission to DACIS, and control of access to computer facilities has been tightened.

14.178 A working committee was established to provide security information to DACIS. This committee is engaged in preparing a procedures manual, sensitivity assessments and threat assessments related to recommendations made in the RCMP report; these three areas cover the action to be taken on the remaining 17 RCMP recommendations.

14.179 A procedure for deleting and/or modifying computer passwords was implemented in August 1984 and is used regularly where the sensitivity of the computer systems warrants. The Department Security Officer acts as the EDP Security Officer and maintains an ongoing liaison with the RCMP team co-ordinator. The Administration Branch has dedicated one person-year for EDP security specialization.

Commissioner of Official Languages - 1983, Chapter 6

14.180 The Office's observations resulted in 11 recommendations relating to the Commissioner's mandate, planning, complaints and audits program, information program, policy analysis and liaison program, program evaluation, and information systems and efficiency. The following is a status report provided by the Commissioner.

The Commissioner's Mandate

14.181 **Mandates of other federal organizations.** Working agreements have been concluded between the Office of the Commissioner of Official Languages (OCOL) and the Treasury Board Secretariat concerning language audits and the exchange of information. For other areas where there could be duplication, OCOL considers it would be the prerogative of the Standing Joint Committee of the Senate and of the House of Commons on Official Languages Policy and Programs to study this question.

Planning

14.182 A document on strategy was developed in November 1984. Subsequently it was re-defined in terms of the priorities the Commissioner set out in the 1984 annual report. A 1985-86 corporate workplan based on this report has been completed.

Complaints and Audits Program

14.183 **Investigation of complaints.** A number of analyses and studies on categories have been done. A new classification grid will be developed during the reorganization of the procedures for processing complaints that is under way at present. A filing system is now in place and will be computerized in the coming months.

14.184 **Linguistic audits.** The Office applies formal methodology for the audits and the follow-ups it conducts. A manual describing the steps to be followed and the methodology to be used has been distributed. With respect to standards of quality for the audit files and reports, the Complaints and Audits Secretariat has developed a form to assist in the monitoring of an audit or a follow-up. This form, once completed, should ensure continuous and consistent information on all files. Thus it will be possible for OCOL to do substantial analyses of the documentation used in preparing the audit report.

14.185 Systematic follow-ups are reviewed periodically in order to improve the quality and effectiveness of work methods. These follow-ups are an integral part of the OCOL strategic planning.

Information Program

14.186 A statement on the Program's mandate was completed in May 1985. The 1985-86 operational plan, flowing from the legal mandate of the Commissioner, includes the corporate objectives as well as the objectives from which will derive all the information tools.

Policy Analysis and Liaison Program

14.187 **Liaison.** OCOL is examining all its regional activities with respect to priorities. On the basis of an in-depth consultation between headquarters and the regional offices, a revised regional mandate was to be submitted to the Commissioner in mid-July 1985. This will assist in making decisions about resources, in defining a role for the regions and in preparing plans for each region.

Program Evaluation

14.188 The Commissioner has initiated an internal review of all the activities of OCOL, their effectiveness and staffing with respect to the established priorities. It is expected that a unit responsible for co-ordinating planning and evaluation will be set up.

14.189 Initial studies of mandates of various groups within OCOL are planned to be completed by September 1985. A complete review of financial and human resource allocation will be done following these initial studies of mandates and organizational revisions.

Information Systems and Efficiency

14.190 The computerized system now in place takes into account human resources information requirements of OCOL.

Department of Communications - 1983, Chapter 7

> **14.191** The Office's observations resulted in 17 recommendations covering 3 areas of the Department's operations – the Communications Program, the Arts and Culture Program, and management systems. The Department considers that implementation is complete on all but four recommendations. The following is a status report as provided by the Department.

Communications Program

14.192 **Policy sector.** Representatives from CRTC and the Department have agreed on the type of information and the format to adopt for sharing information. A document will be exchanged annually and meetings will be held to discuss reports and studies of mutual interest. This mechanism is considered complementary to the many discussions held between representatives of both organizations.

14.193 The Department established a Corporate Strategy and Plans Branch to oversee the planning and policy development processes in the Department. It is actively pursuing this role and is also taking an active role in advising the Senior Management Committee on major policy activities. A directive on the procedures and sign-off sequence for developing policy that requires Cabinet or ministerial consideration has been approved by the Deputy Minister and is now being followed by all sectors. As well, there is a new monthly inventory of such projects that constitutes, in effect, a project control document for the Deputy Minister and the Senior Management Committee.

14.194 **Spectrum management.** The evaluation of the spectrum management system by an outside management consulting firm has been completed. The terms of reference included comparison of projected savings against actual savings. The findings were endorsed by sector management in May 1984. The final report will be forwarded to the Treasury Board Secretariat.

14.195 The Government decided that full costs were to be recovered, and fees were accordingly increased by about 115 per cent, effective 1 April 1985. If projections are achieved, this should yield revenues equal to full costs except for costs associated with statutory exemptions and broadcast regulations.

14.196 The 31 March 1984 discussion paper relating to the fee structure provides estimated spectrum management costs and revenues, including estimated foregone revenues. The fee structure was revised effective 1 April 1984.

14.197 **Government Telecommunications Agency.** A comprehensive statement of service objectives, completed with assistance from the Treasury Board Secretariat, was endorsed by the Telecommunications Advisory Committee in March 1984. Network engineering is now governed by these objectives, which will be included in future multi-year operational plans.

14.198 **Research sector.** Although the full management information system (MIS) has not yet been implemented, the Research Sector has introduced revised guidelines to improve management information and practices associated with project proposals and the budget cycle. The process of data gathering and reporting, including documentation, will improve once the MIS software is introduced, although the content is currently valid and operational. Structured periodic progress reports are now in use.

14.199 The Telidon program has been evaluated, and results of the evaluation were to be presented to management during the spring of 1985.

Arts and Culture Program

14.200 The operational planning framework which contains the role and objectives of Cultural Affairs has been finalized and submitted to Treasury Board.

14.201 Following a consulting firm's study on periodicals, the Department is now actively looking at the postal subsidy program. Decisions are expected shortly.

14.202 Procedures have been established to notify the Special Investigations Section at Revenue Canada of any suspected cases of fraud in production costs of Canadian films, and direction has been given that every effort should be made to co-operate with Revenue Canada in its investigations.

Management Systems

14.203 **Electronic data processing.** A long-range informatics plan accepted by the Senior Management Committee in April 1985 stressed central informatics co-ordination and dissemination as opposed to a central informatics authority. The activities of the Planning and Co-ordination unit will involve ensuring compliance with central agencies directives and guidelines.

14.204 An updated internal EDP audit report is being finalized and the implementation of recommendations will be monitored.

14.205 **Program evaluation.** The evaluations of the Special Program of Cultural Initiatives and the Book Publishing Development Program have been completed.

14.206 **Inventory control.** A complete revision of the Materiel Management Manual is under way and the conversion of inventory records at headquarters to a uniform system is completed.

Canada Employment and Immigration Commission - 1983, Chapter 8

> 14.207 The Office's observations led to 29 recommendations in 4 areas of the Department's operations – organization, strategic and operational planning, programs, and management controls and support functions. The following is a status report as supplied by the Commission (CEIC).

14.208 The Commission has a team that monitors the progress of branches in carrying out the recommendations and correcting the weaknesses identified by the Office of the

Auditor General, central agencies and internal groups. The Commission considers that at 31 March 1985 action is complete on 13 of the Office's recommendations and that action plans are in place on the other 16.

Organization

14.209 Since 1983, CEIC has redefined the roles of senior managers and has issued a new policy on functional responsibilities.

14.210 The Commission has taken two steps in response to the recommendation on co-ordinating promotional activity and communication with the public: it has consolidated the various job creation programs and made a plan for revitalizing Employment Services activities. The consolidation of job creation programs was completed in the fall of 1983, and a National Steering Committee on Employment Services was set up. In 1984, the Committee approved the revitalization plan that will be implemented through a series of projects as determined and approved by the Committee. Testing of new service delivery concepts and new and revised policies and procedures through a series of user trials began in the fall of 1984.

Strategic and Operational Planning

14.211 The Commission has taken action aimed at improving the strategic and operational planning processes, and implementation of the action plans should be completed by the end of 1985-86.

Unemployment Insurance Program

14.212 **Quality control and quality assurance.** In January 1984, regions implemented action plans to ensure the operation of the quality control and quality assurance policy, which was issued after our audit, and National Headquarters will assess the results of these regional action plans by the end of 1985.

14.213 Insurance Services at Headquarters drew up a six-step action plan for assessing training requirements for Insurance delivery personnel to be implemented between February 1984 and January 1986. By 31 March 1985, two of the steps had been completed; some parts of the project were behind schedule. To date, a procedure for identifying Insurance personnel training needs has been developed, and a partial inventory of training requirements has been compiled.

14.214 In July 1984, Headquarters circulated for comment from the regions a draft Quality Control checklist designed to allow for a uniform and complete review of claimants' files. The checklist was introduced on a trial basis in June 1985.

14.215 CEIC began revising the reports produced at Canada Employment Centres and in the regions to analyse the causes of overpayments and underpayments. In January 1984, it began instituting procedures to ensure that steps are taken when overpayments and underpayments are identified. The new reporting system was to have been tested in June 1985.

14.216 **Investigation and control.** Since 1983, CEIC has completed studies of major Investigation and Control programs. In June 1984, National Headquarters approved a work plan to review the concepts of prevention, deterrence and detection, as they relate to the mandate of the Control Branch. At 31 March 1985, CEIC had concluded that prevention and deterrence cannot be measured in a meaningful way with the data available. CEIC has begun a project to obtain information about the nature, characteristics and extent of non-compliance with the Unemployment Insurance Act. A final report was due in September 1985.

14.217 CEIC completed the revision of the monthly and quarterly Investigation and Control activities reports in July 1984.

14.218 **Interview program.** A new interview program policy on selecting claimants to be interviewed was issued in June 1983.

14.219 **Record of employment.** CEIC established manual procedures for the control of blank Record of Employment forms. These procedures will be followed up by the internal auditors during visits to employment centres.

Labour Market Development Program

14.220 **Selection and monitoring of contribution projects.** At 31 March 1985, a review of monitoring had been completed and, as a result, generic monitoring guidelines were expected to be issued in August 1985.

14.221 **Work sharing.** As of 31 March 1985, directives had been developed specifying the scope of work-sharing agreements, and a management information system was in place. Work-sharing claimant files are subject to the same quality controls as those used for regular Unemployment Insurance claimants' files.

Employment Services Program

14.222 **Counselling and placement.** The National Steering Committee on Employment Services has adopted an action plan for revitalizing Employment Services. In the context of revitalization, specific and detailed projects have been developed that should respond to the concerns raised in the areas of developing a national strategy for providing required services to job seekers and employers and for the exercise of functional direction by National Headquarters.

14.223 CEIC is gradually introducing new concepts in service delivery in all employment centres. These include Service Needs Determination interviews to ascertain the appropriate level of service, improved self-service and group-service mechanisms, and improved management of the counselling service. Nationwide implementation should be completed by the fall of 1986. CEIC has improved its manual record file system for employer clients. A concept and plan to computerize employer files have been completed.

14.224 CEIC has also launched a training program for employment counsellors to improve the effectiveness of interviews. CEIC expects that the program, begun in 1984, will have been delivered to 1,000 employment counsellors by 1986.

14.225 CEIC has revised its time standards and has put in place a project to begin measuring the effectiveness of services provided to individual clients.

Personnel

14.226 **Human resource planning.** To improve human resource planning, Personnel Services issued guidelines to headquarters and regional management to be introduced starting with the 1985-86 planning cycle. In September 1983, CEIC senior management approved a career planning and review system to match future organizational needs with individual employee needs. It was implemented for middle and senior-level managers in 1984 and could be extended to other categories following evaluation.

14.227 **Training.** Personnel Services took steps in the fall of 1983 to improve co-ordination of training. CEIC established the position of national training co-ordinator. Following the approval of a new training policy in 1984, a strategic approach to the management of training was defined in March 1985 and is now being implemented. CEIC will be able to use new information flowing from the Regional Personnel Services System, which will be fully implemented by the end of 1987.

Systems and Procedures Group

14.228 **Direction and management.** The steps set out in the Systems and Procedures group action plan to update the EDP Policy Standards and Procedures Manual and to ensure compliance with it are scheduled for completion by 31 March 1986.

14.229 **Planning for EDP.** Senior management approved an EDP planning process in October 1983.

14.230 **Organizing and managing projects.** The Auditor General recommended that the Systems and Procedures group should define and document the process required for detailed planning of projects, as well as the monitoring and reporting processes. CEIC began a review of its policy manual and Treasury Board requirements in the fall of 1983. In addition, a task force with representatives from the Systems and Procedures group and from Finance and Administration is analysing how to improve procedures for planning, monitoring and reporting on EDP projects. Given progress on the action plans up to 31 March 1985, implementation of the recommendation and the new procedures should be in place later in 1985.

14.231 **Evaluation of EDP systems after installation.** CEIC considers that major EDP systems are evaluated periodically.

14.232 **Planning for the recovery of processing capability.** As a result of a study of its back-up equipment needs for on-line systems, CEIC submitted several proposals to Treasury Board. No decision had been made at 31 March 1985; the EDP Policy Standards and Procedures Manual has therefore not been updated to reflect contingency processing activities. Since then, CEIC has advised that Treasury Board requested that further action be suspended pending direction from the Information Task Force which is considering the possible provision of a government-wide computer system back up facility.

Employment and Immigration Information System

14.233 Action plans in this area should be in place by the end of 1985-86.

Performance Measurement

14.234 Since December 1983, CEIC has identified several steps to address the recommendations in this area and most of the action plans had been completed by 31 March 1985. The balance should be in place by the end of the 1985-86 fiscal year.

Internal Audit

14.235 **Planning.** Audit plans for 1984-85 addressed the issues of materiality and risk in setting annual and long-term priorities.

14.236 **Human resources.** Since fiscal 1983-84, the Internal Audit Bureau has had a staffing plan, which is updated regularly to identify and respond to personnel needs.

14.237 **Reports.** The Bureau has revised its procedures manual to include policy and guidelines on the format, content and distribution of its audit reports.

Department of Labour - 1983, Chapter 11

14.238 The Office's observations resulted in 11 recommendations in the areas of regional operations, mediation and conciliation, administration of the Government Employees Compensation Act, grants and contributions, data dissemination and electronic data processing. The following is a status report provided by the Department on the major observations.

Administration of the Government Employees Compensation Act

14.239 The Department is implementing a computer system to handle claims processing as well as other applications. This system is now scheduled to be fully implemented by December 1986. Once the purchase and development costs have been recovered (by 1990-91), the Department anticipates net savings of at least $1.1 million a year.

Regional Operations

14.240 Action has been taken to define strategic and operational objectives for work planning purposes. In addition, program priorities have been identified and communicated to the responsibility centre. A number of other inter-related initiatives have been undertaken to improve the management of the Occupational Safety and Health and Conditions of Work programs. Two of these are the development of compliance and enforcement policies and strategies and the development of a computerized information system and performance indicators. Although these initiatives are at an early stage, the Department expects them to address the concerns identified during our audit.

Other Matters

14.241 Concerns were raised about a number of other issues. These included data quality and usefulness of some of the Department's surveys and the conditions of labour information; the financial controls over the contracts and accounts receivable in the Government Employees Compensation Act and the accounts payable in the $11 million Labour Adjustment Benefits Program; and the need to expand current reporting on the effectiveness of the Federal Mediation and Conciliation Service (FMCS). Observations were made about the adequacy of the Department's evaluation efforts, follow-up of internal audits and planning and control of EDP purchases. The Department has taken action to review its wage survey, reinforce its evaluation and audit practices, and to enhance the reporting of FMCS's effectiveness. Similarly, the Department is currently addressing the other matters reported during our audit.

Secretariat of the Department of the Solicitor General - 1983, Chapter 12

14.242 The Office's observations resulted in six recommendations related to planning, program evaluation, policy areas, and the Programs Branch. The following is the status report provided by the Secretariat.

Planning

14.243 The Secretariat did not provide evaluation information in the strategic overview documents as required by the Policy and Expenditure Management System. The Ministry of State for Social Development (MSSD) advised the Secretariat that evaluation information needed to be included only when it pertained directly to issues highlighted in the review. The Secretariat believed that none had been pertinent to issues highlighted in any strategic overview. The Secretariat notes that no criticism of this stance has been made by MSSD or Treasury Board.

14.244 The link between the operational plans and resources and priorities in the workplans of the branches of the Secretariat has been made clearer and more explicit.

Program Evaluation

14.245 The Secretariat began an evaluation program in 1984 and has a long-term plan.

Policy Areas

14.246 Workplans have improved since 1983; however, different branches are presenting workplans in different formats and of varying effectiveness. Although monitoring of job progress against plans remains limited, workplans are now prepared for all major projects and initiatives.

14.247 The existing statements on roles, responsibilities, activities, tasks, and milestones are not always sufficiently precise to provide objectives against which effectiveness can be measured, because of the complex and intangible nature of the activities and achievements in question. However, performance objectives have improved since 1983.

Programs Branch

14.248 Evaluations of 51 projects were initiated during 1983-84 and 1984-85, and approximately 10 were completed. In addition, a self-evaluation/monitoring process has been developed to promote uniform format in evaluation reports and to capture information from these reports on a computer data base. Self-evaluation guidebooks have been prepared for three policy areas.

National Library of Canada - 1983, Chapter 14

14.249 The Office's observations resulted in 14 recommendations covering the areas of the Collection, bibliographic records, technology support, library direction at the executive level, reporting to Parliament, and the National Library Advisory Board. The following is the status of implementation as reported by the National Library.

The Collection

14.250 **Preservation.** A planning document was submitted to and approved by the Executive Committee in the fall of 1984. The Executive Committee identified priorities to address the problems detailed in the audit and is taking action. A conservation co-ordinator has been monitoring activities throughout the Library since December 1983, and staffing for a senior conservation officer is in progress.

Bibliographic Records

14.251 **Union catalogues.** Activities are ongoing to rationalize the reporting that provides input to the union catalogue of books and serials that will improve methods of reporting, and that will develop a machine-readable union catalogue of materials for the handicapped and a registry of material in production. These activities include:

- establishment and approval of criteria for reporting to the union catalogues;
- a study to rationalize reporting to the union catalogue (first progress report prepared March 1985);
- a survey of machine-readable reporting (June - July 1984); and
- the production of a catalogue for the Union Catalogue of Materials for the Handicapped (February 1985).

14.252 A document was prepared detailing concerns arising from the present National Library Act and these are under review by the National Librarian.

14.253 **National bibliographic standards.** A contract for a survey on the use of Dewey classification numbers in *Canadiana* has been signed, a questionnaire has been prepared and the survey will be conducted in September 1985.

14.254 Specifications for a minimal level catalogue record were approved by the Canadian Committee on Cataloguing and the Canadian Committee on MARC. The Library is preparing the specifications for publication.

14.255 The Cataloguing in Publication program has been expanded and now includes over 600 publishers, in both French and English languages.

14.256 The program evaluation of the Cataloguing Branch is in the assessment stage.

Technology Support

14.257 **Library automation.** A strategic systems study was begun in September 1984 and a report submitted in June 1985. It is now under discussion and will provide the Library with an updateable strategic plan for information systems development. The Canada Institute for Scientific and Technical Information of the National Research Council had a representative working with the consultants on the study. Questions relating to the range of services to be provided by the data base are being considered during the study.

14.258 Budgets and cost projections for the library automation system (DOBIS) are prepared regularly.

14.259 DOBIS plans were discussed with federal libraries in December 1983 and the federal libraries have established two committees to provide advice and input on the needs of federal DOBIS users.

14.260 **Network development.** Resources have been obtained for a second phase of the network pilot project that centres on assessing new telecommunications technology in terms of its uses in libraries. This includes developing the necessary standards for applications in the areas of interlending, acquisitions and directories. The results of an evaluation of the project will be available in 1985-86.

Library Direction at the Executive Level

14.261 **Mandate.** The statement of sub-objectives was dropped from the Main Estimates Part III following consultation with the Office of the Comptroller General. The existing objective statement is considered to be adequate and appropriate. In October 1984, the Library prepared a new statement of goals and critical success factors that will be used as the basis for subsequent policy and planning documents.

14.262 **Co-ordination of federal government library services.** Meetings of a Special Committee of the Council of Federal Libraries were held in the summer and fall of 1984 to prepare a statement of federal library expectations regarding the National Library's co-ordinating role. The report of this Committee was presented to the Council in May 1985 and was later communicated to the federal library community. The National Library meets regularly with directors of federal libraries, and a new structure for the Council has been put in place.

14.263 **Planning and control.** A new planning schedule approved by the Executive Committee in May 1984 has been implemented and some further elaborations to incorporate the new multi-year human resource plan will be made this year.

Reporting to Parliament

14.264 Work on the implementation of a departmental performance measurement system continues on the schedule approved by the Executive Committee in February 1984. In consultation with the branches and the Office of the Comptroller General, the format and presentation of the 1985-86 Main Estimates Part III were reorganized and simplified and are consistent with other planning and statistical information.

The National Library Advisory Board

14.265 A working paper on the role and function of the National Library Advisory Board was discussed at the Board meeting in May 1984. As a result, a discussion paper on its role was approved at the Board's meeting in November 1984.

Public Archives of Canada - 1983, Chapter 15

14.266 The Office's observations resulted in 12 recommendations covering the areas of the Archives, records management, departmental administration, and reporting to Parliament. The following is a status report as provided by the Public Archives.

The Archives

14.267 **Mandate.** The objective of the Public Archives of Canada has been further clarified in Part III of the Estimates for 1984-85 and for 1985-86.

14.268 The Public Archives is currently developing a general acquisition policy document, to be finalized by the fall of 1985, that will include a statement of the basic criteria for defining the national significance of material appropriate for acquisition.

14.269 **Acquisition of federal archives.** Pilot studies on the effectiveness of the scheduling process for acquiring photographic records and cartographic records were initiated in 1984. Reports were completed in April 1985. Specific recommendations will be made to the senior management committee by the end of 1985-86. A study of the scheduling process for written documents is pending.

14.270 To assist in developing procedures and standards required to apply the principles of records management to computerized information, the Public Archives, in co-operation with selected departments, initiated pilot projects related to machine-readable records.

14.271 **Preservation.** The Archives Branch survey of the Collection was initiated in 1984 and a study report was completed in April 1985. A report summarizing conservation requirements in the Branch has been completed and approved by the Archives Branch management committee. The Branch action plan calls for the Divisions to work on developing mechanisms to select material for restoration or copying and to establish priorities for work to be done.

14.272 Divisions in the Archives Branch are expected to be ready to state their priorities by March 1986. The Archives Branch should then be able to prepare a document outlining a plan for conservation and copying of its holdings for review by the senior management committee in the fall of 1986.

14.273 An Archives-wide program evaluation study of the Conservation Component was completed and forwarded to the Dominion Archivist in March 1985. It sets out findings and conclusions about the management of the departmental conservation program. Recommendations and implementation plans relating to the study require review and decision this year.

14.274 **Archives control.** The Public Archives has been awaiting the Bureau of Canadian Archivists Study of Archival Standards before developing its own standards. This study, in which Public Archives participated, is due for release in the fall of 1985. Subsequently, a comparative study of standards in other institutions will be done. In 1986-87, a departmental policy document will be issued and the various Divisions will begin to apply detailed standards of descriptions and control.

14.275 **Automated systems.** The Public Archives has reviewed documentation from the National Library and from the National Museums on their automated systems and their management. Application of appropriate system elements will be made as necessary in the future.

14.276 An internal audit of the management of existing EDP functions in the Public Archives was undertaken in 1984-85, and the report is to be reviewed by senior management by the fall of 1985.

Records Management

14.277 **Evaluation of records management in government.** Discussions with Treasury Board officials on implementing records management responsibilities are going on. The action plan of 1983 called on the Public Archives to report annually to Treasury Board on the effectiveness of records management in the Government of Canada. The evaluation function was undertaken in 1984-85. Planning for its initiation had been started with representatives of the Treasury Board and the Office of the Comptroller General and through consultation with the federal government audit community.

14.278 Two annual reports on the evaluation and assessment of the state of records operations in approximately 60 departments have been prepared.

14.279 **Service to departments.** Participation in one of the Department of Communications Office Communication Systems field trials provided the Public Archives with an opportunity to develop, implement, test and assess records and archival management concerns in the automated office. These are documented in a final report issued in May 1985.

14.280 Detailed goals and guidelines exist in the Records Management and Micrographics Services Division. The Division consults bi-monthly with the government records management community, through the Advisory Council on Records and through the Federal Micrographics Council. The Division communicates the results of these consultations to the records management community.

14.281 The Public Archives has undertaken a needs analysis of all government departments in all regions on the storage of non-active government records. The data base of this analysis will remain as an operational information base in each of the regional records centres.

14.282 The Public Archives has created a Research and Development Section within its Records Management and Micrographic Services Division.

14.283 **Central microfilm operations.** The mandate and scope of activities for Central Microfilm Operations (CMO) Division were approved in December 1984. Performance criteria will be developed by the end of 1985-86. A CMO pricing policy is being formulated for submission to Treasury Board. The target date for the approval, issuing an Order in Council, and ministerial approval of this policy is March 1986. Application is planned for 1986-87.

Administrative Services

14.284 **Exhibitions and publications.** The policies and procedures on exhibitions are to be completed by 31 March 1986. Departmental publications and exhibitions committees are now functioning, and the roles and responsibilities of these committees provide controls and mechanisms for decision making.

Reporting to Parliament

14.285 Preliminary guidelines for the preparation of the Public Archives 1985-86 expenditure plan were issued in June 1984. Internal Audit plans an audit in 1985-86 of the Departmental Program Planning and Evaluation Division, the information in Part III of the Estimates and the underlying systems and procedures.

Statistics Canada - 1983, Chapter 16

14.286 The Office's observations resulted in 20 recommendations related to credibility, meeting user needs, co-operation of respondents, and management control.

14.287 The Agency concurs that action is completed on 7 recommendations and that implementation or preliminary study is under way in 12 other cases, 3 of which involve long-term projects.

14.288 The Agency concurs with the underlying intent of the remaining recommendation, 16:45, which stated: "The Agency should establish reasonable goals for the reliability of its statistics in relation to the major uses being made of them and the costs of gathering them. Achievement of the goals should be monitored and reported to senior management." This recommendation was based on the relationship between the reliability of statistics and their costs. In view of the multiplicity of uses to which any particular statistic may be put, Statistics Canada has advised that it believes the most practical manner of addressing this issue is through "market feedback" based on regular consultation with major users. Processes to intensify and systematize "market feedback" are being developed in conjunction with the increased orientation toward cost recovery.

14.289 The following information on the status of the other recommendations was provided by the Agency.

Credibility

14.290 A draft policy and procedures dated 29 April 1985 on institutional and peer review of analytical studies prior to release are now in place.

14.291 A comprehensive set of Quality Guidelines dated May 1985 has been issued. These include methodology guidelines and are designed to provide significant aid to the judgement of program managers and methodologists.

14.292 A task force reviewed the Agency's 1977 policy on the development and disclosure of measures of quality, and recommended necessary changes in its content, implementation and monitoring. A draft policy informing users of data quality and underlying methodology was circulated 3 May 1985 with a planned implementation date of 1 June 1985. The policy includes a provision for a review for compliance with the policy.

14.293 A quality assurance function was established and studies have been released on two subject areas that will guide the development of this function.

14.294 The Agency has taken a major initiative to redevelop its business register to provide an up-to-date and more complete sampling frame for all its economic surveys. This initiative also provides some of the infrastructure necessary for creating benchmarks for these surveys on a regular basis. This is a long-term project to develop a business frame for all business surveys. With respect to current labour income estimates, the Agency commissioned and received three major consulting studies. Implementation of their recommendations has begun.

Meeting User Needs

14.295 The Agency has established a formal planning system based on the operational planning framework that has improved its ability to achieve balance within and among its individual programs. The new planning process implemented in 1983 has now completed two cycles. An explicit objective of the planning process is to review, on a systematic basis, frequency and timeliness of statistical programs in relation to users' needs and costs.

14.296 On 24 May 1985, the Government announced that it was establishing a National Statistics Council as recommended in the 1983 Auditor General's Report. This Council will supplement the advice Statistics Canada receives in specific areas from its network of Advisory Committees.

14.297 In the area of developing a comprehensive marketing strategy, major steps have been taken on organizational, policy, technical, and procedural aspects. Although the marketing strategy is not yet developed, overall elements have been identified.

Co-operation of Respondents

14.298 A task force has been established to review all surveys and determine whether further reduction in response burden is feasible. The interim report, issued in February 1985, recommended a strategy for measuring response burden. These recommendations are being reviewed.

Management Control

14.299 Statistics Canada has advised that the program evaluation function is now fully operational. The work of the program evaluation function is under regular scrutiny by the Program Evaluation Committee.

14.300 The Agency is pursuing a number of initiatives aimed at improving the efficiency of its operations. One such initiative involves integrating operations and regionalizing activities and is well under way. Major changes are being implemented in External Trade and also in Manufacturing and Primary Industries, Merchandising and Services, Construction and Transportation. A headquarters Operations Division has been established. Outside experts have been retained to examine workflow and operational procedures as well as to recommend specifications for operational performance efficiency measurements. The application of such measurements for the period April 1983 to March 1984 indicates that efficiency levels had increased to 77 per cent as opposed to 56 per cent at the time of the 1983 audit. These initiatives are gradually producing a reduced requirement for clerical staff and a shift in professional requirements from operational to analytical roles.

14.301 Agreement has been reached between the Agency and Treasury Board Secretariat on the application of the classification standards. Necessary corrective action is under way. The Agency reports that it now has in place appropriate control mechanisms to manage its classification system.

ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

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15

ORGANIZATION AND PROGRAMS OF THE OFFICE OF THE AUDITOR GENERAL

Mission and Mandate

15.1 The Office of the Auditor General exists to serve Parliament. A fundamental responsibility of Parliament is to hold the government of the day accountable for handling the funds entrusted to it. To fulfil this responsibility, Members of Parliament require financial and related information. The mission of the Office of the Auditor General is to audit this information.

15.2 The Office thus holds a unique place in Canada's parliamentary and governmental structure. It stands independent of government and responsible to Parliament. This independence is a key element in the Auditor General's work. A second key element is the Auditor General's right to all the information he needs to provide the assurances to Parliament that the Auditor General Act requires.

15.3 Traditionally, the primary role of the Auditor General in fulfilling this mission has been to provide the House of Commons with assurance that revenues are being collected and properly accounted for and that the moneys Parliament votes have been properly expended; to report on the financial statements of Canada; and to act as auditor of certain Crown-owned entities. Over the years, however, the responsibilities of the Office have been refined and extended.

15.4 A significant change came about with the proclamation of the Auditor General Act of 1977. The major thrust of this revised Act was specifically to require that the Auditor General report to the House of Commons all instances where money had been expended without due regard to economy and efficiency, and also to inform the House where satisfactory procedures had not been established to measure and report the effectiveness of programs. The 1977 Act definitively moved the Office into the era of value-for-money auditing.

15.5 Today, the Auditor General seeks to provide Parliament with a threefold assurance: that the information in the financial statements of Canada is fairly presented; that legislative authorities have been complied with; and that due regard for value for money has been demonstrated in the expenditure of public funds. The auditing required to provide this threefold assurance has come to be known as comprehensive auditing.

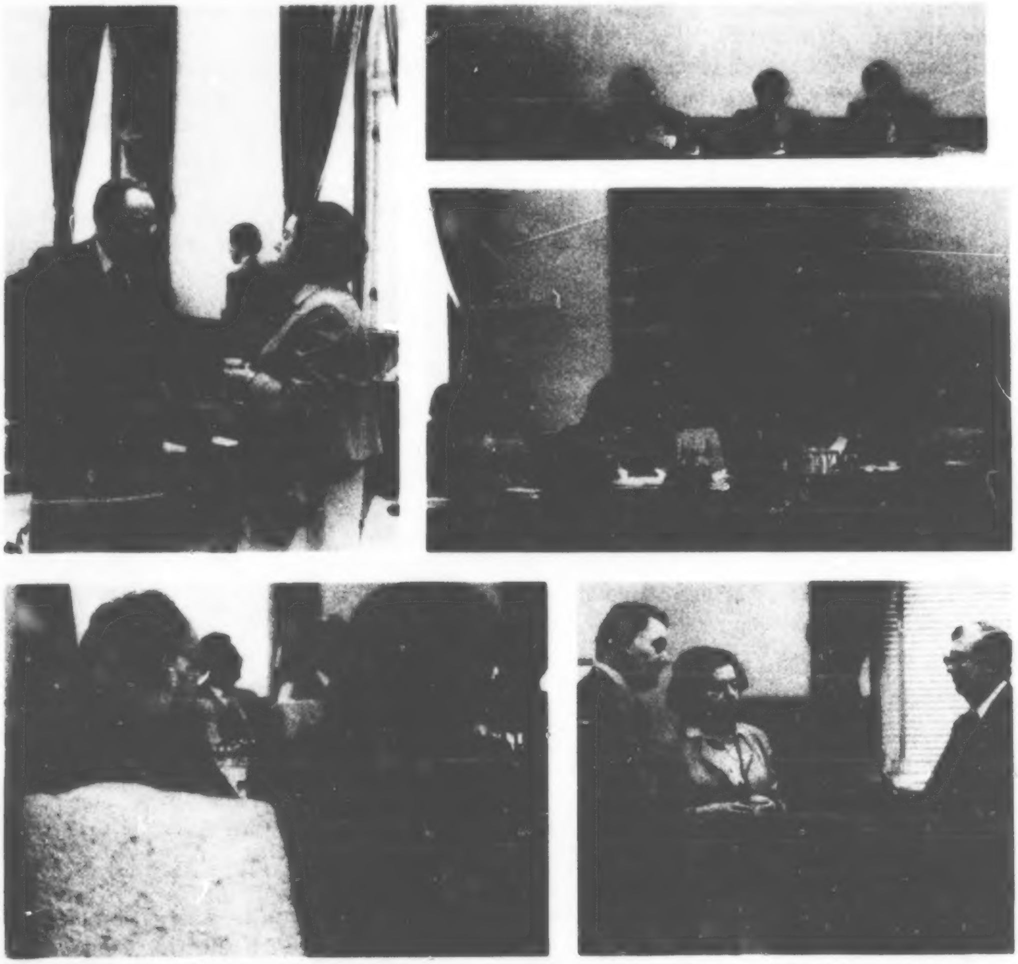
15.6 A second major change in the responsibilities of the Auditor General took place last year, when amendments to the Financial Administration Act affecting control and accountability of Crown-owned corporations came into force in September. In addition to providing opinions on the financial statements and on compliance with authorities in those Crown corporations where he is the appointed auditor, the Auditor General is now also required to:

- report, when required to do so, on the accuracy and consistency of quantitative performance information contained in Crown corporations' annual reports;

- attest to the accuracy of quarterly reports, submitted by Treasury Board to Parliament, concerning the timely tabling of annual reports and summaries of corporate plans and budgets;

- at least once every five years, conduct a special examination (a review of financial and management control and information systems and management practices) in as many as 33 Crown corporations; and

- consult with other auditors carrying out audits and special examinations of Crown corporations with respect to any matter which, in the opinion of such other auditors, should be brought to the attention of Parliament.



The Office of the Auditor General exists to serve Parliament. Witnesses from the OAG at a PAC Meeting.

15.7 Further, as a result of the amendments, the Auditor General is to become the sole or joint auditor of an additional 10 corporations on and after 1 January 1989.

15.8 Although the 1977 Auditor General Act and the 1984 amendments to the Financial Administration Act have significantly extended the responsibilities of the Auditor General, the fundamental mission and mandate are unchanged.

15.9 The mission of the Auditor General is still to provide Canada's federally elected representatives - Members of Parliament - with assurance and information needed to control the public purse. The Auditor General thus supports the accountability relationship of government to Parliament.

15.10 In brief, the mandate of the Auditor General requires him to audit, and having audited, to report.

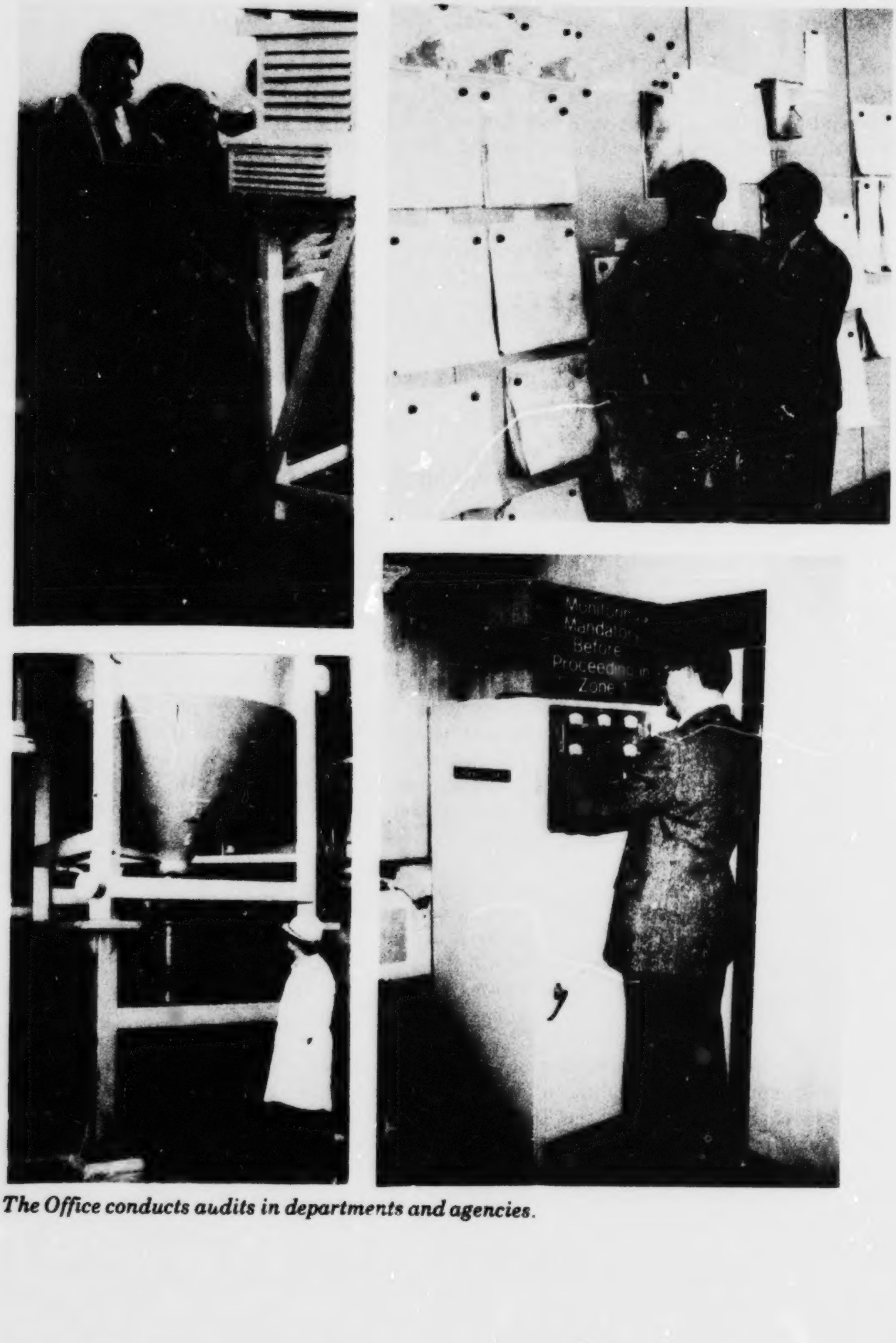
Auditing

15.11 The requirement for the Auditor General to provide appropriate audit information for use by the House of Commons in its scrutiny of government programs means that by far the largest segment of the Office's staff is engaged in auditing and its related activities.

15.12 Each year the Office conducts audits in departments and agencies. A major purpose of these audits is to enable the Auditor General to express an opinion on the summary financial statements of the Government of Canada. This annual work is carried out in accordance with generally accepted auditing standards. It includes various enquiries and tests of financial transactions, systems and controls, and any other procedures considered necessary to enable the Auditor General to express his opinion on the government's summary financial statements.

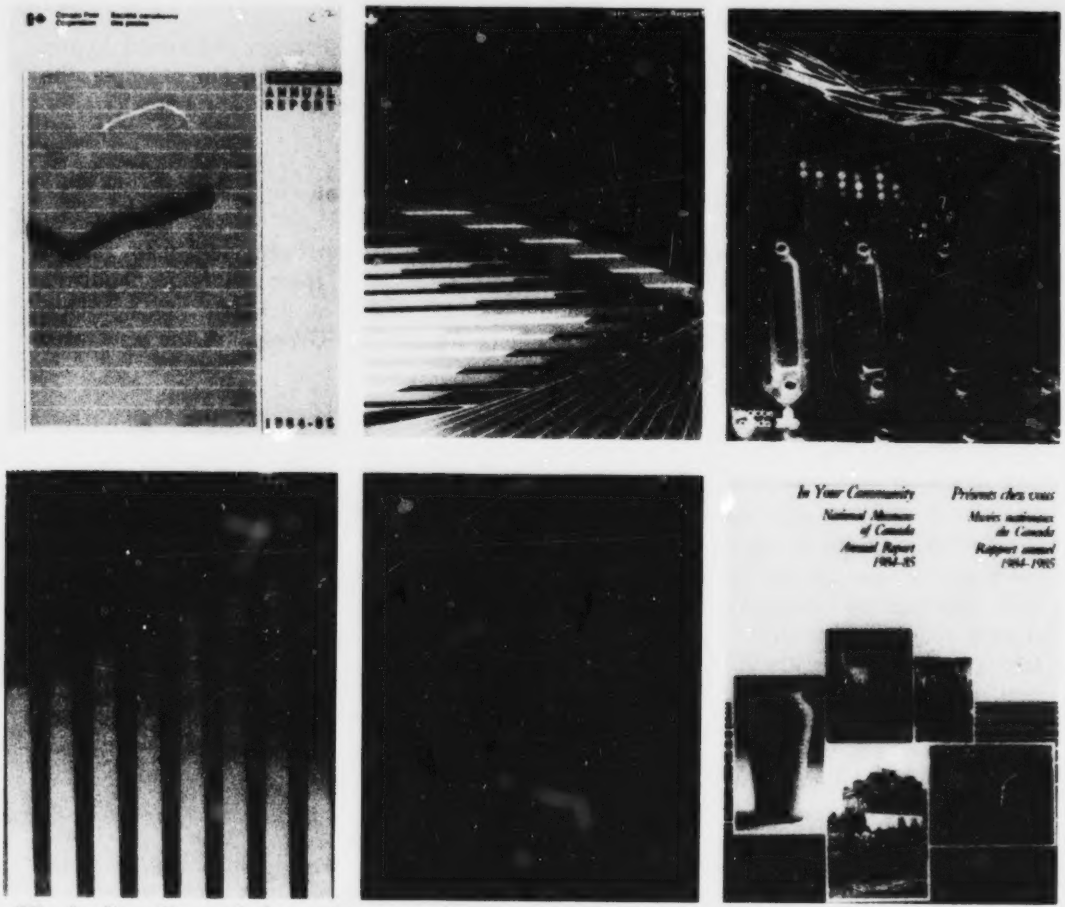
15.13 Annual audits also assess departmental and agency compliance with legislative authority. Significant matters arising from the annual audit work are investigated and, as required by section 7(2) of the Auditor General Act, are reported to the House of Commons through audit notes in the Auditor General's annual Report.

15.14 In addition to carrying out the annual audits described above, the Auditor General conducts other audits in departments and agencies to fulfil the reporting requirements of section 7(2) of the Auditor General Act. An important focus of these audits is the consideration of value for money. Accordingly, cases are reported where departments or agencies have made expenditures without due regard to economy and efficiency, or where satisfactory procedures have not been established to measure and report the effectiveness of programs. The Office carries out such audits in each major government entity at least once every five years and reports the results to the House of Commons. The Office also conducts government-wide audits when it is feasible and appropriate to examine issues common to a


Monitoring
Mandatory
Before
Proceeding in
Zone 1

The Office conducts audits in departments and agencies.

number of entities by means of a single audit project. Observations and recommendations resulting from these audits are included in the Auditor General's annual Report.


Canada Post Corporation
Société canadienne des postes
ANNUAL REPORT
1984-85
In Your Community
National Museums of Canada
Annual Report
1984-85
Présents chez vous
Musées nationaux du Canada
Rapport annuel
1984-1985

The Auditor General also audits many Crown corporations and other entities.

15.15 The Auditor General also audits many Crown corporations and other entities. During the past several years the Office has conducted comprehensive audits in a number of Crown corporations. Annual audits support the Auditor General's opinion on the financial statements of these corporations. And as discussed earlier, the 1984 amendments to the Financial Administration Act require the Office to perform additional audits and examinations in relation to Crown corporations.

15.16 The Auditor General reports the results of special examinations of those Crown corporations listed in Part I of Schedule C of the Financial Administration Act to the board of directors of the corporation and, where he considers it appropriate, will report items of significance to the House of Commons.

15.17 Audit work is also conducted at the request of the Governor in Council on any matter relating to the financial affairs of Canada or to public property. For example, the Auditor General audits the Oil Pricing and Compensation Programs.

The Organization of the Audit Function

15.18 The Office's Audit Operations Branch is its largest component (see Exhibit 15.1). The Branch is responsible for all audit activities. Responsible for auditing approximately 150 entities, it plans and conducts audits of federal departments, agencies, Crown corporations and other entities for which the Auditor General is the appointed auditor.

Audit Groups

15.19 The Branch consists of six Audit Groups for Departments and Agencies, a Crown Corporations group, five Functional and Special Audit groups, a Planning and Co-ordination group, and five Regional Audit groups in seven locations. Each is headed by an Assistant Auditor General and is responsible for an area or group of entities that have similar requirements in terms of audit skills and special expertise, or entities that have strong program interrelationships. An Audit Group consists of a relatively permanent team that concentrates in the area. This concentration by area is designed to provide continuity in the audit process, sound understanding of issues and good relationships with each organization audited. Responsibility for government-wide audits and other studies, together with any special audits, is shared among the Audit Groups.

15.20 **The Departments and Agencies groups** are responsible for the comprehensive audit of all departments and agencies and for the audit of the majority of Crown corporations listed under the Financial Administration Act.

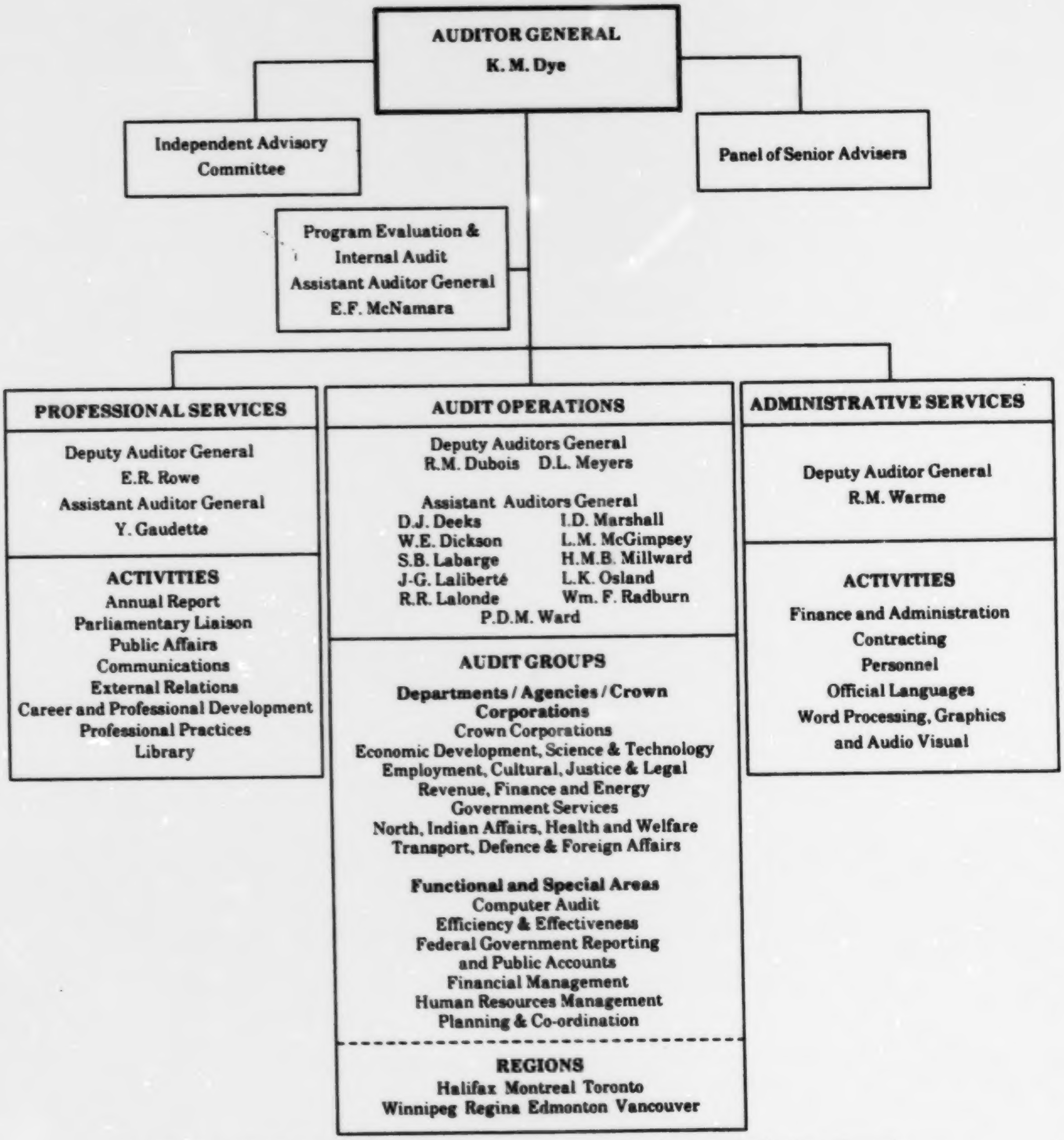
15.21 With the amendments to the Financial Administration Act that came into force in September 1984, the Office will be required to expand its audit work in those Crown corporations for which it is now, or will become, the auditor. The changes to the Act are requiring the development of new methodology and the delivery of new training programs.

Functional and Special Audit Groups

15.22 **The Crown Corporations Audit group** is responsible for providing direction and advice on general accountability issues relating to Crown corporations and other entities, and for analysing the impact on the Office of the provisions of Part XII of the Financial Administration Act in terms of policy and methodology development, operational considerations, co-ordination and liaison. Its Technical Resource unit focuses on reviewing audit reports and providing advice on them to the Auditor General and Office staff with a

Exhibit 15.1

ORGANIZATION OF THE OFFICE OF THE AUDITOR GENERAL
October 1985



AUDITOR GENERAL
K. M. Dye

Independent Advisory Committee

Panel of Senior Advisers

Program Evaluation & Internal Audit
Assistant Auditor General
E.F. McNamara

PROFESSIONAL SERVICES

Deputy Auditor General
E.R. Rowe
Assistant Auditor General
Y. Gaudette

ACTIVITIES
Annual Report
Parliamentary Liaison
Public Affairs
Communications
External Relations
Career and Professional Development
Professional Practices
Library

AUDIT OPERATIONS

Deputy Auditors General
R.M. Dubois D.L. Meyers

Assistant Auditors General
D.J. Deeks
W.E. Dickson
S.B. Labarge
J-G. Laliberté
R.R. Lalonde
I.D. Marshall
L.M. McGimpsey
H.M.B. Millward
L.K. Osland
Wm. F. Radburn
P.D.M. Ward

AUDIT GROUPS

Departments / Agencies / Crown Corporations
Crown Corporations
Economic Development, Science & Technology
Employment, Cultural, Justice & Legal
Revenue, Finance and Energy
Government Services
North, Indian Affairs, Health and Welfare
Transport, Defence & Foreign Affairs

Functional and Special Areas
Computer Audit
Efficiency & Effectiveness
Federal Government Reporting and Public Accounts
Financial Management
Human Resources Management
Planning & Co-ordination

REGIONS
Halifax Montreal Toronto
Winnipeg Regina Edmonton Vancouver

ADMINISTRATIVE SERVICES

Deputy Auditor General
R.M. Warme

ACTIVITIES
Finance and Administration
Contracting
Personnel
Official Languages
Word Processing, Graphics and Audio Visual

The Executive Committee is composed of the Auditor General and the Deputy Auditors General.

view to promoting greater consistency and efficiency of audits in Crown corporations. The group also conducts audits in some Crown corporations.

15.23 **The Computer Audit group** provides expertise and methodology for assessing whether value for money has been achieved in expenditures on electronic data processing and in the evaluation of financial controls in computerized systems within the government. The group has five main activities:

- providing EDP audit expertise to support the Office's financial audit work; for example, the attest opinion given by the Office on the government's financial statements and those of some Crown corporations, and the assessment of the adequacy of financial controls in EDP-based systems in the government;

- providing facilities and expertise to the Office in the areas of sampling methodology and computer audit software;

- providing the value-for-money component for EDP management matters in comprehensive audits and government-wide studies;

- identifying and carrying out investigations of suitable government-wide topics in the field of EDP; and

- providing overall support to microcomputer users in the Office.

15.24 As discussed later in this chapter, the Office has undertaken a major new initiative in the computer audit area.

15.25 **The Efficiency and Effectiveness Audit group** provides specialist advice and assistance to audit teams. This is done by ensuring that qualified efficiency and effectiveness specialists are assigned to audits, maintaining an inventory of consultants capable of providing necessary services, providing functional guidance during the audit, and performing a quality control function. The group also develops approaches to auditing efficiency, productivity and the measurement of program effectiveness.

15.26 **The Federal Government Reporting Audit group** is responsible for auditing the summary financial statements of the Government of Canada contained in Volume I of the Public Accounts, giving guidance and direction to staff on reviewing and reporting on Part III of the Estimates, and for matters involving the government's reporting of financial information.

15.27 **The Human Resource Management Audit group** addresses value-for-money issues in the management of human resources in departments and agencies. Its responsibilities include developing audit techniques and methodology and conducting government-wide studies that address management issues, including central agency policies and directives and their impact on departmental operations and human resource management practices. The group also provides staff, functional direction and quality control to the human resource management component of comprehensive audits. These are an integral part of the comprehensive audit, examining human resource management controls and systems and their impact on the entity's capacity to deliver its programs.

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Details of
Expenditures and Revenues

The Office audits the summary financial statements.

15.28 **The Planning and Co-ordination group's** primary function is to support the Deputy Auditors General with respect to planning, management and resource allocation within the Audit Operations Branch. The group is responsible for the operational and strategic plan for Audit Operations and the information and resource allocation system used in the general management of Audit Operations.

15.29 This group also assists the Deputy Auditors General in developing an overall human resource plan for Audit Operations and in establishing guidelines and priorities for conducting and reporting audits.

15.30 **The Regional Audit groups** are, to a large extent, stand-alone operations. The groups represent the Auditor General in a regional environment. They plan, conduct and report on audits of entities with head offices in their regions and contribute to the development of nation-wide audit plans for departments, agencies and Crown corporations with regional operations. As well, they participate in examining and reporting departmental audits and government-wide studies. The Regional Audit groups are located in Halifax, Montreal, Toronto, Winnipeg, Regina, Edmonton and Vancouver. Because of changing audit requirements, the Toronto regional office will be closed early in 1986.

15.31 Audit Operations Branch assigns audit work to students on staff enrolled in programs leading to the designations of Chartered Accountant, Certified General Accountant or Certified Management Accountant. During these assignments, students receive the practical experience they need to meet requirements for professional accreditation.

15.32 Audit Operations Branch staff are regularly called on to participate in special projects initiated by their own Branch or by the Professional Services and Administrative Services Branches. These projects include international audits, audit methodology development, financial and administrative tasks, and professional development courses.

Improving Productivity

15.33 A major initiative during the last two years has been to improve audit productivity. As reported in 1984, the Office adopted a revised organization structure in September of last year. This has proved most successful in bringing together all audit functions into one branch, in clarifying the roles of Deputy and Assistant Auditors General, and in developing strong groups in all the major audit areas.

15.34 These changes have contributed to an increased productivity in the Office's audit work by streamlining audit activity in similar entities and by allowing Assistant Auditors General and audit Principals greater flexibility in planning and managing their resources.

15.35 The Office has also developed a methodology that allows a greatly improved accuracy in the measurement of audit productivity. All net available hours for each individual, audit team and audit group are calculated, together with the hours that are worked on specific audit projects. The percentage of direct audit hours over the net available hours has become the audit project hour ratio. Goals have been established for each team, group and branch. At the time of this Report going to press, all areas of the Office are meeting productivity goals.

Reporting

15.36 If all this work in auditing is to have value, it must result in reports that can be acted on. Throughout the audit process, findings are discussed with managers in the entities being audited. At the conclusion of an audit, a management letter is issued. This is a formal, detailed report to the management of the audited organization on the Office's findings, conclusions and recommendations.

15.37 Throughout the planning and examination phases of audit, consideration is also being given to identifying the significant elements to be highlighted in the annual Report.

15.38 The Office's reporting to Parliament involves making decisions about what and how much to report. Although most of the findings from audit projects will have been noted in one or more management letters, matters for inclusion in the annual Report are those that will be of interest to Members of Parliament and particularly the members of the Public Accounts Committee.

15.39 Throughout this process, particular attention is paid to:

- reporting only significant matters whether they are positive or negative;
- ensuring that there is an equivalence between what was audited and what is reported;
- providing enough background information to allow an interested reader to understand better our findings, conclusions and recommendations;
- describing as far as possible the effect of deficiencies noted;
- stating audit findings in a way that is concise, clear, complete, fair, accurate and objective; and
- stating audit recommendations so that they indicate specifically what needs to be done, but not how to do it.

15.40 An important objective of the Office is to write balanced reports. Balanced reporting attempts to portray a realistic picture of what has been audited. In pursuing this objective, the Office identifies, describes and assesses management activity in the audit areas over the past few years. Programs and systems examined only in part must be identified to avoid misinterpretation of reported findings. And efforts made by the audited organization to identify problems and to overcome deficiencies in the audited areas are acknowledged and assessed, and an opinion is given as required.

15.41 The Auditor General takes complete responsibility for the annual Report. Throughout the auditing process and the writing of the individual chapters, he is informed of the major emerging issues. Finally, with his senior personnel, he approves the content of the annual Report, ensuring that it meets the test that all matters are of a nature that should be reported to the House of Commons.

The Organization of the Reporting Function

15.42 The process of communicating the results of the Office's auditing both to the audited entities and, more particularly, to the House of Commons has received special attention in the Office in recent years. There has been a growing recognition that auditing itself serves little purpose unless its results can be clearly and effectively reported. This issue has become an important focus for a variety of groups within the Office. While overall responsibility for all reporting, including the annual Report, is that of the Reports group, other groups make contributions in this area. These include the Career and Professional Development group, which provides formal training in writing and communication skills, and the Public Affairs, Parliamentary Liaison and Communication groups which, together with the program evaluation function, have the opportunity to assess the impact of the Office's reporting. A further recent initiative has focused on the use of photographs and graphics in the annual Report.

15.43 It is each team working to produce a high quality report that fulfills the mission of the Auditor General to bring information to the attention of the House of Commons in a readily understandable and useable form. Key to providing assistance to the audit teams in this activity is the work of the Reports group, together with a central review function.

The Reports Group

15.44 This group is responsible for editing and producing reports to Parliament and for providing reporting guidelines to audit teams and editorial advice to staff writing material for internal and external distribution. The Reports group is composed of editors and technical verifiers (who also undertake substantiation research). The editors are available to audit teams as early in the audit as possible to advise on such matters as chapter organization, the flow of logic and the use of language preferred by the Auditor General, and to provide design and production support relating to format, word processing, graphics and the use of photographs.

15.45 The reporting process also includes a central review function. This provides the reporting audit teams with a probing challenge of their observations and recommendations and accompanying evidence and the way they reflect the Auditor General's mandate.

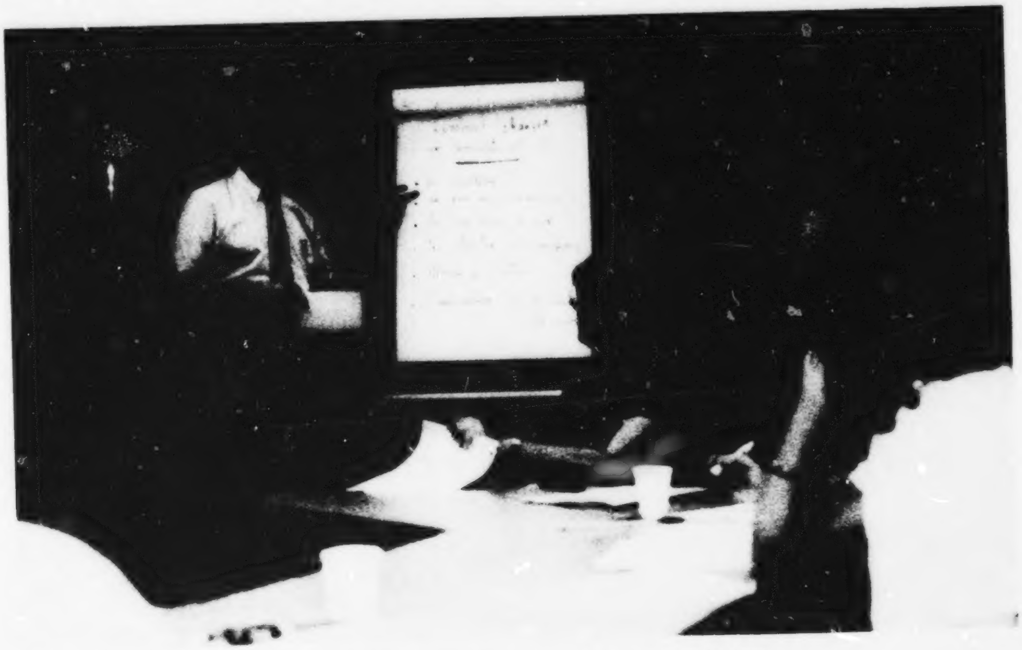
Activities Supporting the Auditing and Reporting Functions

15.46 A variety of closely related activities supports the processes of auditing and reporting. These activities are grouped under Professional Services and Administrative Services. Although the Office favours a task-oriented approach over one that is burdened by a committee structure, there are several managerial committees. The Office also has its own program evaluation and internal audit functions. And the Auditor General solicits the counsel of two advisory bodies.

Professional Services Branch

15.47 The Professional Services Branch provides professional and technical support to the Audit Operations Branch.

15.48 The objective is to assist in assuring quality, efficiency and consistency in audit work. This is achieved through a combination of written guidance and training programs prepared for staff in Audit Operations. The Branch is also responsible for a number of matters of direct concern to the Auditor General. These include the reporting function, parliamentary liaison, public affairs, internal communications, strategic planning and legal matters. Also included are relations with international and provincial auditors general and other institutes and associations in the accounting and management consulting professions. Some of these aspects are discussed in the next section of this chapter. The services of the Branch are provided through six major groups.

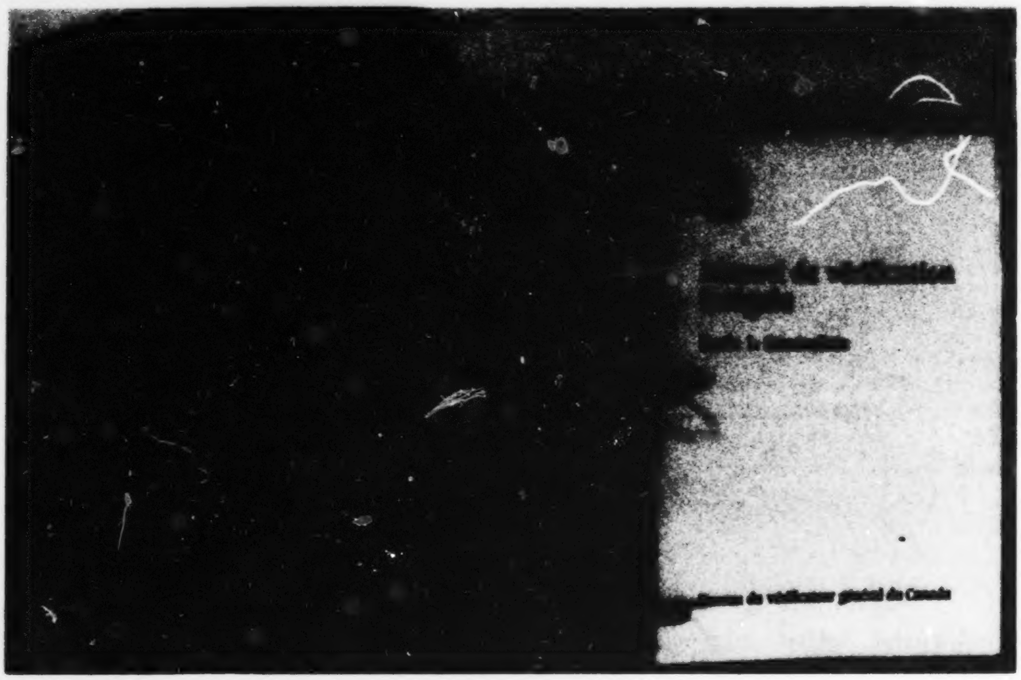


Professional Development provides formal training in report writing.

15.49 The **Career and Professional Development group** is responsible for designing, developing and delivering training and development courses for all Office staff in both official languages, and providing assistance in career planning and related counselling services.

15.50 The **Professional Practices group** assists in developing and maintaining auditing policies, standards, process and procedures; managing auditing methodology development; and conducting auditing research. Standards and procedures are assessed periodically, and resulting changes are communicated to staff through Audit Guides and Accounting and Auditing Bulletins. Research in auditing is conducted to develop ways of improving audits. This methodology is shared with other legislative auditors in Canada and around the world. A major task of this group is the current complete revision of the Comprehensive Auditing Manual.

15.51 The **Library** maintains a collection of auditing and accounting material, Canadian parliamentary and government documents and publications in fields related to the Office's responsibilities. It provides articles from periodicals and, on request, a quick reference service, literature searches on given subjects, an interlibrary loan service and bibliographic and other services. The Library has a computerized literature searching capability; through contacts with five major data base vendors, access is available to well over 200 data bases covering all major fields in the social sciences and arts.



A major task in 1984-85 has been a total revision of the Comprehensive Auditing Manual.

15.52 The **Reports group** in relation to the annual Report has been discussed in the previous section. In addition, the group has a major role in designing, editing, supervising translation and providing technical editing advice for the wide variety of Reports, Audit Guides, Bulletins, and other publications issued by the Office.

15.53 The **Parliamentary Liaison group** co-ordinates the Office's relations with Parliament and the Public Accounts Committee (PAC) of the House of Commons, as well as with any other committees of the House and Senate that consider the Office's work. This involves preparation for PAC hearings and assistance to Committee members and staff. The group also helps to ensure that reports to Parliament meet the information needs of Members in fulfilling their responsibility to oversee the expenditure of public funds. In addition, Parliamentary Liaison sends information to audit teams about any discussion in Parliament of concerns about specific government programs.

The Library has a computerized literature searching capability and provides searches on a variety of subjects.

15.54 The **Public Affairs and Communications advisory groups** are responsible for the Office's internal and external communications. These include relations with the media, responding to enquiries from the public and producing some Office publications.

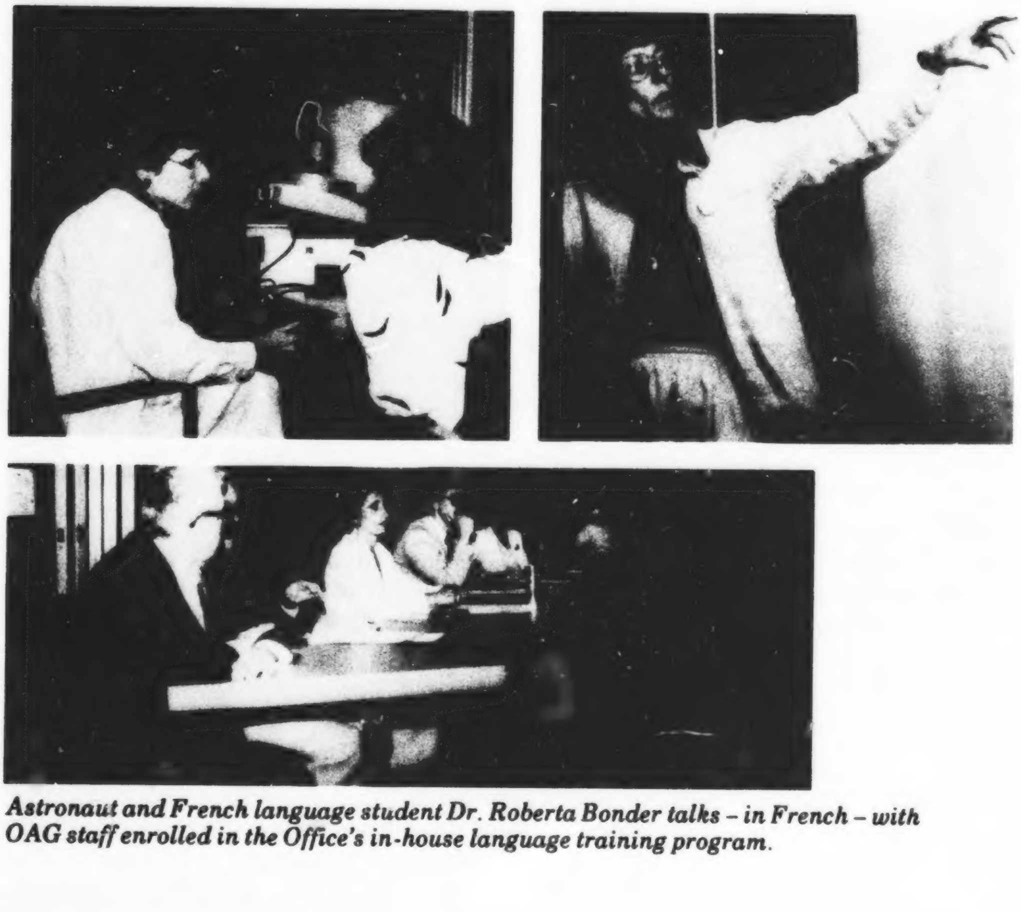
Administrative Services Branch

15.55 The Administrative Services Branch provides all other central support services in the Office. It administers and provides advice on applicable policies on administration, contracting, finances, official languages and personnel. Its services are offered through four groups.

15.56 The **Contract Administration group** negotiates and monitors all contracts engaging people from the private sector, including those who are brought into the Office for assignments of up to two years under the Public Service Commission's Interchange Canada program.

15.57 The **Comptroller's group** is responsible for, and provides advice on, consolidating and reporting the Office's resource requirements, providing EDP services and systems development and establishing procedures, systems and controls for managing the financial administration activities of the Office. It also provides administrative support services including mail and messengers, office supplies and equipment, file maintenance, word processing, audio-visual services, graphics, accommodation, telecommunications and receptionist and security services.

15.58 The **Official Languages group** provides instruction in both official languages. It also advises senior management on interpretation of official languages policies as they apply to the Office and develops and implements the Office's official languages policies and programs.



Astronaut and French language student Dr. Roberta Bonder talks – in French – with OAG staff enrolled in the Office's in-house language training program.

15.59 The **Personnel group** is responsible for developing and administering personnel policies, practices and programs. These include staffing, classification, compensation, pay and benefits, staff relations and human resource planning. From time to time, this group also assists the Office in government-wide audits of human resource management.

Committees

15.60 The Office has four formal committees:

- the Executive Committee;
- the Methodology Development Committee;
- the Information Systems Steering Committee; and
- the Library Committee.

15.61 The **Executive Committee** is the formal decision-making body responsible for the overall professional and administrative direction of the Office. It is chaired by the Auditor General, and its other members are the Deputy Auditors General.

15.62 The **Methodology Development Committee** co-ordinates and communicates methodology development within the Office. It is chaired by the Deputy Auditor General responsible for Professional Services. Other members, at the Deputy and Assistant Auditor General levels, are from the Audit Operations and Professional Services Branches and the Program Evaluation and Internal Audit group.

15.63 The role of this Committee is to:

- develop and approve policies relating to development of methodology and distribution of methodology products;
- approve and assign priorities for methodology development projects;
- ensure that an adequate development process is followed;
- review and approve methodology development material and make recommendations about its distribution to the Executive Committee; and
- review and approve professional training courses with respect to technical content and policy positions relating to audit methodology.

15.64 The **Information Systems Steering Committee** is responsible for co-ordinating and guiding the orderly development, implementation and effective use of EDP systems and related activities throughout the Office.

15.65 The **Library Committee** serves as a formal liaison between Information and Library Services and Office staff. The Committee is an advisory body, concerned primarily with library policies and collection development.

Audit Advisory Committees

15.66 In addition to these formal committees, Audit Advisory Committees are established for every audit and government-wide study. They serve as senior advisory bodies, independent of the ongoing audit. Members, including experts from outside the Office, provide the Assistant Auditor General and the Principal in charge of the audit with advice as work proceeds from planning through to reporting. Advice may be sought from individual members of the Committee or from the Committee as a whole.

Program Evaluation and Internal Audit

15.67 Program Evaluation examines the effectiveness of the Office's work in terms of its usefulness in assisting the House of Commons in the scrutiny of government programs, revenues and expenditures. This evaluation involves analysing the use made of the annual Report by the Public Accounts Committee and other Committees of the House. As well, periodic interviews are held with Members of Parliament to obtain their views on the usefulness of the information provided in the annual Report and to solicit suggestions on how the Report could be improved. Finally, post-audit quality review is carried out to ensure that the work of the Office meets the highest professional standards.

15.68 Internal audit assesses the economy, efficiency and effectiveness of the Office's internal management policies, practices and controls.

15.69 The activities of the group are discussed in greater detail in the section of this chapter titled "Special Initiatives".

Advisers to the Auditor General

15.70 The **Panel of Senior Advisers** counsels the Auditor General on the application of comprehensive auditing, with particular emphasis on public sector corporate entities. The members of the Panel are:

Kenneth G. Belbeck, F.M.C.
Thorne Stevenson & Kellogg

Warren Chippindale, F.C.A.
Coopers & Lybrand

Frank A. Hughes, C.A.
Pannell Kerr Forster

H. Marcel Caron, F.C.A.
Clarkson Gordon

Gordon H. Cowperthwaite, F.C.A.
Canadian Comprehensive Auditing Foundation

Giles R. Meikle, F.C.A.
Deloitte Haskins & Sells

Edward W. Netten, F.C.A.
Price Waterhouse Associates

John R.V. Palmer, C.A.
Thorne Riddell

Donald C. Scott, F.C.A.
Clarkson Gordon

Donald H. Page F.C.G.A.
Midland Doherty Ltd.

Robert M. Rennie, F.C.A.
Touche Ross & Co.

W. Ross Walker, F.C.A.
Peat, Marwick, Mitchell & Co.

The Independent Advisory Committee provides advice on emerging issues.

15.71 The **Independent Advisory Committee to the Auditor General on Government Accounting and Auditing Standards** comprises senior representatives of accounting firms, management consulting firms, and the academic community. The Committee reviews major documents such as the opinion and observations on the annual financial statements of the government and the Office's Comprehensive Auditing Manual and Audit Guides. The members are:

Kenneth M. Dye, F.C.A. (Chairman)
Auditor General of Canada

James L. Goodfellow, F.C.A.
Touche Ross & Co.

John J. Kelly, C.A.
Canadian Institute of
of Chartered Accountants

Ronald G. Gage, F.C.A.
Clarkson Gordon

Joe Hudson, Ph.D. (Secretary)
Office of the Auditor General of Canada

Patrick D. Lafferty, C.A.
Coopers & Lybrand

A.D. Lloyd, C.A.
Lloyd Courey & Bruneau

Don MacLean, F.C.A.
Ernst & Whinney

L.S. Rosen, F.C.A.
York University, Toronto

Leonard Rutman, Ph.D.
Price Waterhouse

George L. Stephenson, F.C.A.
Thorne Riddell

Gérald Langlois, C.A.
Raymond, Chabot, Martin,
Paré & Associé

P. Howard Lyons, F.C.A.
Deloitte Haskins & Sells

R.B. Robinson, F.M.C.
Thorne Stevenson & Kellogg

Edward R. Rowe, C.A. (Vice-Chairman)
Office of the Auditor General of Canada

W.R. Sloan, F.C.A.
Arthur Andersen & Co.

Special Initiatives

Interactive Data Extraction for Auditors -IDEA

15.72 As indicated earlier in this chapter, the Office has been markedly increasing its ability in computer auditing. Microcomputers are having a huge impact on the work of the Office. Under the leadership of the Computer Audit group, the Office has moved to the forefront in the use of micro technology, including laser printers, local area networks and mass storage hard drives.

15.73 Since most government organizations are now computerized, a great deal of work must go into developing specific approaches to highly computerized government departments, agencies and Crown corporations. The approach includes internal control evaluation of systems and substantive testing using computer software to access client files.

15.74 A significant development by the Office of the Auditor General in the spring of 1985 was the design of a microcomputer-based system which the Office calls IDEA - Interactive Data Extraction for Auditors. This responds to the need to access and understand large pools of departmental financial data stored on some of the largest computer systems in the country. There has remained a profound gap in the auditor's understanding of data held on such systems. This gap is the result of many factors - huge volumes, complex processing logic, and the inability of auditors to scan and enquire into computerized data as easily as into manual records.

15.75 IDEA overcomes these difficulties. It is a set of interactive audit routines designed for use on microcomputers with large storage hard disk attached. The first step in the process is to bring the department's data down to the microcomputer. Next, the auditor sets up a description of the data on the IDEA data base: the account code field, the description field, the amount field, etc. The system automatically transfers the records into the fields set up by the auditor. The system is then indexed, and as part of this procedure, a "profile" of the data is created. The auditor can find out how many journal entries there are for each responsibility centre, how many expenditure items, and so on.

The development of IDEA is a significant breakthrough in computer auditing.

15.76 The system is now ready to accept any type of enquiry put together by the auditor. The IDEA concept gives auditors direct access to data by bringing the data files onto a desktop microcomputer. It provides auditors with a powerful software tool for performing any logical test or selection that they can construct. Using IDEA, auditors can re-perform or check a department's calculations and verify financial statements' figures directly from the detailed transactions.

15.77 As a solution to auditors' needs, the system is, first of all, portable. Auditors can take a microcomputer with the IDEA software outside the Office. Portability is especially important when a department or agency does not want files taken off the audit site. It also integrates user-developed routines such as random number generation and statistical sampling and handles data bases of a few hundred records to those of several hundred thousand records or more. It is flexible, designed to be migrated easily to new technologies. The concept is easily transportable to a future generation of data base languages. Finally, IDEA is cost-effective. The hardware costs are offset by lower mainframe utilization costs and the absence of programming costs. The installation virtually pays for itself in the first year, and this does not take account of the impact the software has on the effectiveness of the Office's auditing.

15.78 The development of IDEA is a major achievement by the Office and a significant breakthrough in computer auditing. It is expected to have an enormous impact on audits throughout the Office and, indeed, throughout the auditing community.

Program Evaluation and Internal Audit

15.79 This group, formed during the 1983-84 fiscal year, has three objectives. Through program evaluation, it attempts to assess the effectiveness with which the Office's audit activities support the scrutiny role of the House of Commons. Through post-audit quality review (PAQR), it assesses whether the quality of the Office's audit work is such that only matters of significance are selected for audit, and whether these are audited in a professional and cost-effective manner. Through internal audit, it attempts to assess whether important management practices and procedures throughout the Office reflect due regard for value for money.

15.80 In pursuit of these objectives, the group has undertaken three major projects: evaluation of the annual reporting process; a post-audit quality review of the 1983 annual Report; and an internal audit of contracting for professional services.

15.81 **Evaluation of the annual reporting process**. This study was undertaken to determine the effectiveness of the annual reporting process, using the 1983 and 1984 Reports as the basis for the evaluation.

15.82 The specific objectives of the study were to determine the views of Members of Parliament about the audit information provided to them in the annual Report; to find out the views of central agencies and line departments; assess the views of journalists, since it is through the news media that the public gets most of its information on the work of the Auditor General; and to analyse the Office's internal perception of the usefulness of the audit information, its nature and its presentation in the annual Report.

15.83 Interviews with Members of Parliament revealed that the annual Report is used by members of the Public Accounts Committee (PAC) but that little attention is paid to it by other Members. Members of standing committees other than the PAC had been unaware that there were chapters on departments for which they reviewed the Estimates.

15.84 Members did make a number of suggestions about how the Office could be more helpful to them. Audit chapters could be arranged so that Members of Parliament could quickly determine findings of most significance, to which they could assign first priority. They also suggested that wherever practical, concrete examples should be used to illustrate findings in departmental and government-wide chapters. The Auditor General should continue to press for an amendment to the Auditor General Act to permit more frequent reporting so that significant issues could be brought to the attention of MPs while they were still current. Also, the Office should explore ways of providing support to the standing committees by referencing audit findings to Estimates submissions and by helping the committees relate the information contained in the Auditor General's Report, the departmental annual report, the Public Accounts and the departmental Estimates.

15.85 The Office could further assist the committees by communicating by letter that a relevant chapter had been published and outlining matters of significance, and by attending committee meetings where the Estimates are reviewed to discuss the implications of relevant audit findings.

15.86 Interviews with department and central agency heads revealed that the majority of these senior managers felt that the annual Report attempted to present a fair and balanced view of the organization being audited, that an understanding of the activities and areas covered in the audit was conveyed, and that the Report dealt with matters of significance. Two deputy heads expressed negative views. The Office is now placing increased emphasis on keeping deputy heads fully informed throughout audits so that any problems can be satisfactorily resolved before the audit is finished.

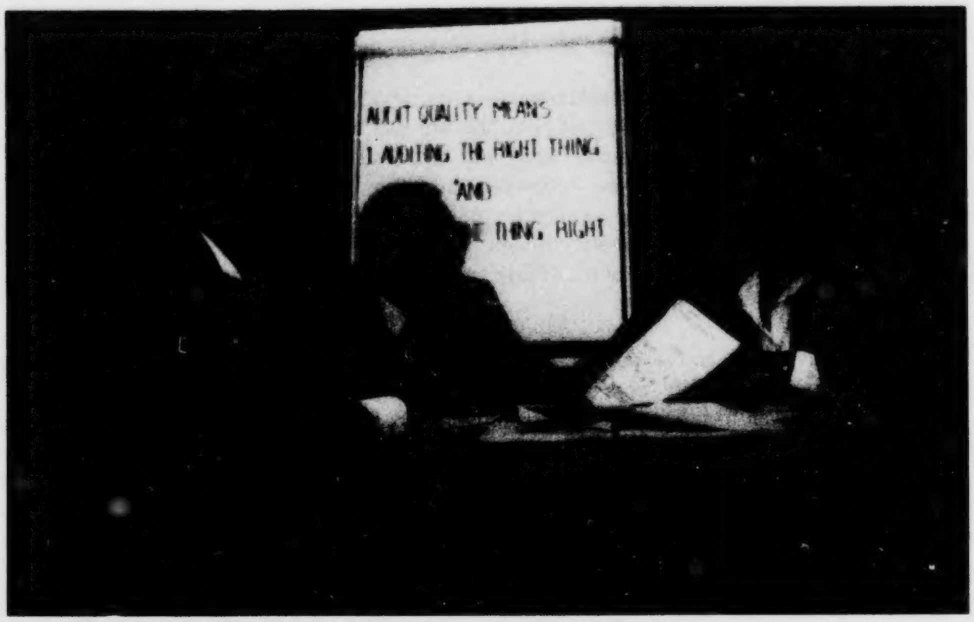
15.87 Journalists conveyed a positive impression of the annual Report, although they commented that its media life, approximately one week, is short. They suggested that more frequent reporting could allow more depth of coverage. The journalists reported that they use simple criteria for selecting which topics to focus on, such as large dollar amounts of waste, and high-profile departments. They have a preference for the Auditor General's own chapter on matters of special importance and interest and the Audit Notes chapter, because these conform to journalists' criteria.

15.88 The evaluation of the reporting process concluded that processes can be improved to make the annual Report more useful to MPs and more acceptable to deputy heads. Several recommendations are now being considered by the Auditor General.

15.89 **Post-audit quality review of the 1983 Report.** A post-audit quality review (PAQR) is carried out annually on a representative portion of Office audit work. This occurs in the year following the year the audit work took place. Work is currently being completed on the 1984 Report. The most recent PAQR report dealt with the 1983 Report and with selected Crown corporation audit reports on fiscal years ending between 31 March 1983 and 31 March 1984.

15.90 The PAQR work on departmental comprehensive audits found that increased attention was being paid by audit staff to the value for money with which government programs are being delivered, and less to administrative support systems. There is more concern for balanced reporting and less for citing unrepresentative "horror stories".

15.91 Along with this shift in emphasis go certain risks. There must be strict adherence to the mandate conferred on the Office by the Auditor General Act. All matters of significance, and only matters of significance, should be drawn to the attention of the House of Commons. Positive findings must be as well supported as negative findings. Important messages should not be left between the lines. Major improvement efforts on the part of departments should be acknowledged, and assessed after a reasonable period. Recommendations to departments should be practical and cost-effective.



The Program Evaluation and Internal Audit group scrutinizes the Office's auditing and reporting processes.

15.92 In examining reports on audits of Crown corporations and other entities to determine how opinions on financial statements are given, PAQR found a satisfactory adherence to generally accepted auditing standards as prescribed by the Canadian Institute of Chartered Accountants and as set out in the Office's Comprehensive Auditing Manual. A number of audit aids have since been developed to improve assurance that audit work, documentation and audit project management are of the highest quality.

15.93 **Internal audit of contracting for professional services.** The value-for-money audit of government departments involves examining a tremendous variety of programs and activities. Many of these audits require technical subject matter expertise which it is not economical to have on permanent staff. It is more cost-effective to engage outside consultants to act as audit team members for limited periods.

15.94 The Office's use of consultants has decreased over recent years as the permanent staff has gained more experience. However, it is still substantial and, for the reasons stated above, will remain so although some further decline is likely.

15.95 The internal audit examined how the need for consulting services was determined and how individual consultants were engaged, managed, paid and evaluated. It found that, over recent years, a significant improvement had occurred in the controls over contracting. The need for contracts is now established on the basis of more informed judgement; the approval process is more stringent and takes less time to complete; there is better definition of work to be done; and there is improved information for controlling contract resources.

15.96 The internal audit identified a number of opportunities for further improvement. The Office policy on the use of contracts should be clearly communicated to senior staff throughout the Office to ensure that practices are consistent with it. Periodic assessments should be made of which expertise it is cost-effective to maintain permanently and which should be contracted for specific short-term assignments. Consultants should be subject to the same direction, control and assessment as their permanent staff counterparts.

A Multi-talented Staff

15.97 Sixty per cent of the Office's staff are university graduates, with one-third of those graduates holding post-graduate degrees.

15.98 The disciplines in which staff members have graduated range across the whole spectrum of academic possibilities and, while commerce, accounting, administration, economics, engineering and computer science predominate, other backgrounds include political science, sociology, statistics, communications, psychology, history, library sciences, philosophy, mathematics, physics, education, agriculture, French literature, English literature, theatre, anthropology and theology

15.99 In addition, well over half the staff hold professional designations. The majority of these are members of Canada's three major accounting bodies. But the Office also has 17 engineers, 6 certified management consultants and 3 lawyers.

15.100 The Office has found itself in an advantageous situation in carrying out its international activities and assignments because of the capability of its personnel in a wide variety of languages. Besides those speaking the two official languages, Office staff includes 16 staff members fluent in Spanish, 14 in Hindi, 13 in German, 12 in Urdu, 9 in Mandarin, 8 in Cantonese and 5 in Arabic. The ability of staff members to communicate with our Chinese colleagues has proved of immense value in the Canada-China Auditor Training Project.

Women in the Office

15.101 The Office has an objective of providing career opportunities equally to women and men throughout our organization to ensure that, within a reasonable period of time, representation of male and female employees of the Office approximates the proportion of qualified and interested persons of both sexes by occupational group and level.

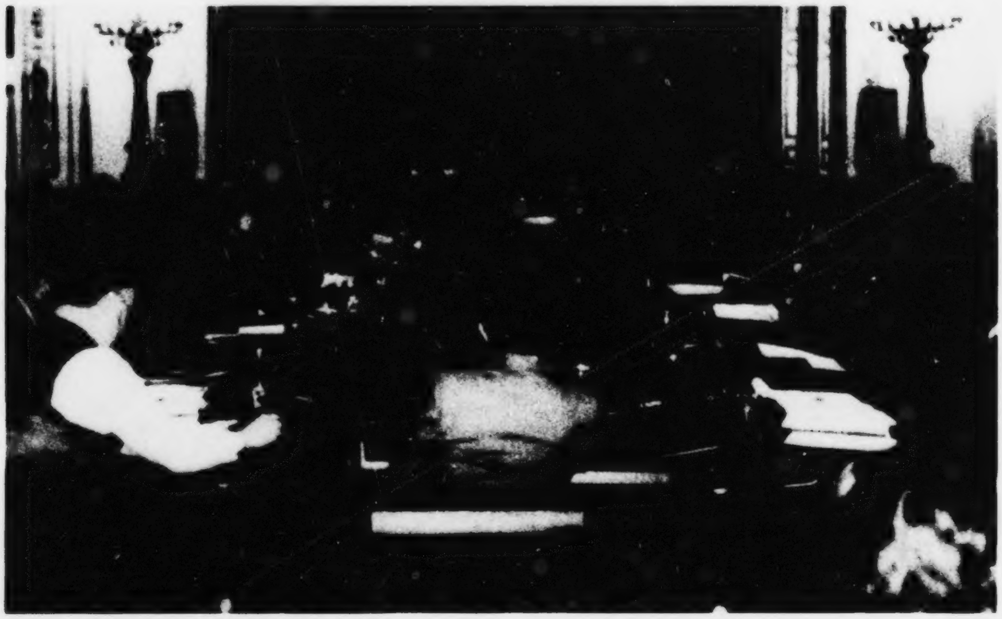
15.102 In April 1985, the first woman Assistant Auditor General was appointed in the Office. Also in April, three women were among the four promotions to the level of Principal. During 1984-85, 55 per cent of those hired by the Office were women; 13 of the 20 students-in-accounts recruited were women; 32 per cent of promotions at the professional level were women; and 51 per cent of all advancements in the Office were women.

Official Languages

15.103 The Office continues to move toward a fully functional bilingualism. There were 92 employees participating in the Office's in-house French-language training and development workshops; 6 were completing full-time training; 5 were enrolled in the Public Service Commission's evening courses; and 3 were participating in other intensive language sessions. The Language Knowledge Examination was administered to 85 staff members. In English-language training, three employees were enrolled in intensive programs and nine in part-time studies.

External Relations

15.104 Canada has acquired a wide reputation in public sector auditing in countries and organizations around the world. These include the **International Organization of Supreme Audit Institutions (INTOSAI)**, where the Auditor General serves on the governing board; the **United Nations**, where Canada is on the Panel of External Auditors and the Auditor General of Canada is chairman; **NATO**, where we had until recently a representative on the Board of Audit; and the **Conference of Commonwealth Auditors General**. The Conference held its twelfth triennial conference in London, England, in October 1984. Canada's Audit Office was represented by Auditor General Kenneth M. Dye.



Conference of Commonwealth Auditors General in London, England.

15.105 The Office is the external auditor of the **International Civil Aviation Organization (ICAO)** and the **Northwest Atlantic Fisheries Organization (NAFO).**

15.106 The Office helps to support the international community through the **International Audit Office Assistance Program.** Announced in the United Nations in autumn 1979, the program is designed to help auditors from developing nations upgrade their public sector auditing skills and techniques, especially through the practice of value-for-money auditing. The program is a Canadian initiative, funded by the Canadian International Development Agency (CIDA) and administered by the Canadian Comprehensive Auditing Foundation. There is a training component and a fellowship program. The current year's fellows are from Brazil, Kenya, Korea, Malaysia, Mexico, Nigeria, Sri Lanka, and Trinidad and Tobago. During their year, the Fellows add an interesting dimension to the life of the Office. More important, on returning to their own countries, they apply the formal training and on-the-job experience to their home situations - where they continue to be guided by visits from Canadian advisers. There is now substantial evidence of the very significant contribution they are making to auditing in nations around the world.

Overseas fellows apply their on-the-job learning.

15.107 Since 1982, the Office has been involved in an international effort with **CIDA,** the **United Nations** and the **Peoples' Republic of China** to assist the Peoples' Republic in developing the legislative audit function called for in its new constitution.

15.108 The Chinese Audit Office will encompass some 40,000 staff auditors. With that number, plus an additional 100,000 internal auditors in various audited organizations across the vast country, training is essential. The role of our Office is, over the next three to five years, to undertake the considerable project of training those who will train the Chinese auditors. In spring 1985, the Auditor General visited China in relation to the project and took the opportunity to give several major addresses.

Kenneth M. Dye visited China in connection with the Canada-China Auditor Training Project. He is seen here with the Auditor General of China, Lu Peijian.

15.109 The Office is also taking part in several initiatives within the **Caribbean** area, to strengthen the audit function of a number of nations in the Caribbean community.

15.110 Office participation in international assignments continues. Also, in 1984-85 an exchange of senior staff is taking place between this and the **Audit Office of New Zealand**.

15.111 The Office continues to be a major participant in the activities of the **Canadian Comprehensive Auditing Foundation**. The Foundation operates as a co-operative agency for audit research and a forum for exchanging and disseminating information among members. Members of the Foundation include institutions and professional organizations such as legislative audit offices, government and private sector internal audit groups, public accounting and management consulting firms, individuals and corporations. The Office of the Auditor General was well represented at the December 1984 Annual Conference held in Ottawa.

15.112 The Office also maintains an active role in the **Canadian Conference of Legislative Auditors**, composed of federal and provincial auditors and their deputies. The Conference, which met in June 1985 in Whitehorse, Yukon Territory, plays an important role in the development of public sector auditing and accounting practices in Canada.

Financial Resources

15.113 Parliamentarians now have available to them, in Part III of the Estimates of the Government of Canada, the detailed resource requirements of the Office of the Auditor General.

15.114 Exhibit 15.2 provides an overview of appropriations and expenditures by activity.

15.115 In part because of the additional audit requirements flowing from the amendments to the Financial Administration Act and in part because of the Office's expanded computerized audit work, space needs have become a problem.

15.116 The solution being sought is the acquisition of sufficient space in the same building to accommodate all national capital region staff. As a temporary solution, the Audit Operations Branch has relocated certain groups.

Costs Incurred in Preparing Reports of Audits and Special Examinations in Crown Corporations

15.117 Section 149(2) of Part XII of the Financial Administration Act (FAA) requires that where the Auditor General of Canada is the auditor or examiner of a Crown corporation, the costs incurred in preparing any report under sections 139 and 143 shall be disclosed in his next annual Report and be paid out of the moneys appropriated for his Office.

15.118 The costs reported here pursuant to section 149(2) represent the full costs incurred by the Office in carrying out the audit and special examination work and preparing particular reports under section 139 or 143 of the FAA. These costs are reported here only when the work has been completed.

15.119 The total costs of Crown corporations work include costs incurred on work not specifically required under section 139 or 143. This includes, for example, work in relation to issuing prospectuses, advising on information and internal control systems, and helping to resolve accounting issues and to prepare financial statements. The costs incurred for this work are not reported in this chapter.

Exhibit 15.2

OFFICE OF THE AUDITOR GENERAL OF CANADA
APPROPRIATIONS AND EXPENDITURES

Appropriations and Expenditures by Activity

	1985-86	1984-85		1983-84	
	Estimates	Appropriations	Expenditures	Appropriations	Expenditures
	(thousands of dollars)				
Legislative Auditing	42,968	41,126	39,727	38,806	37,512
TOTAL	42,968	41,126	39,727	38,806	37,512

Appropriations and Expenditures by Object

	1985-86	1984-85		1983-84	
	Estimates	Appropriations	Expenditures	Appropriations	Expenditures
	(thousands of dollars)				
Salaries and Wages	27,723	26,575	24,169	23,249	22,849
Contributions to Employee Benefit Plans	3,820	3,883	3,883	3,223	3,223
Transportation and Communications	2,525	2,600	2,441	2,400	2,535
Information	106	110	99	139	123
Professional and Special Services	7,112	6,527	6,629	8,298	6,747
Rentals	238	246	280	464	220
Purchased Repair and Upkeep	103	105	202	70	163
Utilities, Materials and Supplies	471	485	601	500	569
Capital-Construction or Acquisition of Machinery and Equipment	450	220	1,060	73	742
Transfer Payments	410	364	358	339	337
All Other Expenditures	10	11	5	51	4
TOTAL	42,968	41,126	39,727	38,806	37,512

Annual Audit Reports

15.120 Under section 139 of the FAA, each parent Crown corporation is required to have an annual auditor's report prepared, in respect of itself and its wholly-owned subsidiaries, on the financial statements and on any quantitative information that the Treasury Board requires to be audited. Also, the auditor must prepare such other reports as the Governor in Council may require.

15.121 Exhibit 15.3 shows the costs incurred in performing the completed audits and preparing the annual auditor's reports required by section 139 for those corporations and subsidiaries audited solely or jointly by the Auditor General of Canada. The costs refer to the completed annual audits for fiscal years ending on or before 31 March 1985.

15.122 The costs reported do not include any costs for the audit of quantitative performance information, because no such audits have been requested by the Treasury Board for any of the corporations the Office audited. Similarly, there were no other reports required by the Governor in Council under section 139.

Special Examination Reports

15.123 Under section 143 of the FAA, on completion of a special examination, the examiner is required to submit a report of the findings to the board of directors of the corporation examined. The examiner of any corporation listed in Schedule C-1 of the FAA may also make special reports to the appropriate minister or to Parliament where, in the examiner's opinion, there is information that should be brought to the attention of either.

15.124 Although work on special examinations has started in some corporations, the Office's costs will not be reported until reports have been issued to the boards of directors.

Exhibit 15.3

COSTS OF PREPARING ANNUAL AUDIT REPORTS FOR FISCAL YEARS ENDING ON OR BEFORE 31 MARCH 1985

Crown Corporation	Fiscal Year Ended	Cost Incurred
Atlantic Pilotage Authority	31.12.84	$ 33,400
Atomic Energy of Canada Limited	31.03.85	404,700
Canada Deposit Insurance Corporation	31.12.84	298,200
Canada Development Investment Corporation (Joint Auditor)	31.12.84	89,400
Canada Harbour Place Corporation	31.03.85	62,700
Canada Lands Company (Le Vieux-Port de Montréal) Limited	31.03.85	42,700
Canada Museums Construction Corporation Inc.	31.03.85	94,000
Canada Post Corporation (Joint Auditor)	31.03.85	214,900
Canadian Arsenals Limited	31.03.85	285,000
Canadian Commercial Corporation	31.03.85	133,300
Canadian Dairy Commission	31.07.84	144,800
Canadian Livestock Feed Board	31.03.85	38,200
Canadian National (West Indies) Steamships Limited	31.12.84	4,800
Canadian Patents and Development Limited	31.03.85	21,900
Canadian Saltfish Corporation	31.03.85	101,600
Canagrex	31.03.85	26,000
Defence Construction (1951) Limited	31.03.85	49,200
Export Development Corporation	31.12.84	257,500
Farm Credit Corporation	31.03.85	168,400
Freshwater Fish Marketing Corporation	30.04.84	114,600
Great Lakes Pilotage Authority, Ltd.	31.12.84	32,700
Laurentian Pilotage Authority	31.12.84	64,300
Loto Canada Inc.	31.03.85	22,300
National Capital Commission	31.03.85	198,200
Northern Canada Power Commission	31.03.85	114,700
Pacific Pilotage Authority	31.12.84	32,900
Royal Canadian Mint	31.12.84	204,800
The St. Lawrence Seaway Authority	31.03.85	115,300
Seaway International Bridge Corporation Ltd.	31.12.84	16,300
The Jacques Cartier and Champlain Bridges Incorporated	31.03.85	42,200
Standards Council of Canada	31.03.85	36,800
Teleglobe Canada	31.03.85	225,400
Uranium Canada Limited	31.12.84	2,000
Vancouver Port Corporation	31.12.84	50,700

APPENDICES

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APPENDIX A

AUDITOR GENERAL ACT

25-26 ELIZABETH II

CHAPTER 34

An Act respecting the office of the Auditor
General of Canada and matters related
or incidental thereto

[*Assented to 14th July, 1977*]

Her Majesty, by and with the advice and
consent of the Senate and House of Commons
of Canada, enacts as follows:

PART I

SHORT TITLE

Short title 1. This Part may be cited as the *Auditor General Act*.

INTERPRETATION

Definitions 2. In this Act,

"Auditor General" "Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);

"Crown corporation" "Crown corporation" has the meaning assigned by section 95 of the *Financial Administration Act*; s.c. 1984, c. 31, s. 14

"Department" "Department" has the meaning assigned to that term by section 2 of the *Financial Administration Act;*

"Registrar" "Registrar" means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*.

AUDITOR GENERAL OF CANADA

Appointment and tenure of office 3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem (2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment (3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy

(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General.

Salary

4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

- S.C. 1976-77, c. 34, s. 4(1);
- S.C. 1980-81-82-83, c. 50, s. 23;
- S.C. 1980-81-82-83, c. 55, s. 1.

Pension benefits

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him.

DUTIES

Examination

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.

Idem

6. The Auditor General shall examine the several financial statements required by section 55 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

- S.C. 1976-77, c. 34, s. 6;
- S.C. 1980-81-82-83, c. 170, s. 25.

Report to House of Commons

7. (1) The Auditor General shall report annually to the House of Commons

(a) on the work of his office; and,

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(c) money has been expended other than for purposes for which it was appropriated by Parliament;

(d) money has been expended without due regard to economy or efficiency; or

(e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

Submission of report to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before the 31st day of December in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receipt thereof by him or, if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Special report

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report.

Submission of reports to Speaker and tabling in the House of Commons

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 20(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.

Idem

9. The Auditor General shall

(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and;

(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act;*

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.

Improper retention of public money

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.

Inquiry and Report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.

ACCESS TO INFORMATION

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*.

Reliance on audit reports of Crown corporations

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of

the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.

STAFF OF THE AUDITOR GENERAL

Officers, etc.

15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act*.

Contract for professional services

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in *Appropriation Acts*, contract for professional services.

Delegation to Auditor General

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*, other than the powers, duties and functions of the Commission in relation to appeals under sections 21 and 31 of that Act and inquiries under section 32 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office.

Responsibility for personnel management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 5(1)(*e*) and section 7 of that Act.

Collective agreements

17. Any collective agreement affecting persons employed in the office of the Auditor General entered into before the coming into force of this Act remains in force and binds the Auditor General as employer of such persons until the expiry of that agreement.

Classification standards

18. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office.

Delegation

19. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 55 of the *Financial Administration Act* and his reports to the House of Commons under this Act and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General.

ESTIMATES

Estimates

20. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office.

Approbation allotments

21. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General.

AUDIT OF THE OFFICE OF THE AUDITOR GENERAL

Audit of office of the Auditor General

22. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting.

PART II

CONSEQUENTIAL AND RELATED AMENDMENTS

R.S., c. F-10

23. Part VII of the *Financial Administration Act* is repealed.

R.S., c. P-35

24. (1) Part I of Schedule I to the *Public Service Staff Relations Act* is amended by deleting therefrom the words "Office of the Auditor General of Canada".

(2) Part II of Schedule I to the *Public Service Staff Relations Act* is amended by adding thereto the words "Office of the Auditor General of Canada".

R.S., c. E-8

25. Section 16 of the *Established Programs (Interim Arrangements) Act* is repealed and the following substituted therefor:

Powers of Auditor General

"**16.** Nothing in this Act shall be construed to restrict the powers of the Auditor General of Canada under the *Auditor General Act.*"

1970-71-72, c. 52

26. Section 27 of the French version of the *Pilotage Act* is repealed and the following substituted therefor:

Vérificateur général

"**27.** Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de chaque Administration et en fait rapport au Ministre."

R.S., c. N-22

27. Subsection 23(5) of the *Northwest Territories Act* is repealed and the following substituted therefor:

Powers of Auditor General

"**(5)** The Auditor General has, in connection with his examination of the accounts of the Territories, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada."

R.S., c. Y-2

28. Subsection 26(5) of the *Yukon Act* is repealed and the following substituted therefor:

Powers of Auditor General

"**(5)** The Auditor General has, in connection with his examination of the accounts of the Territory, all the powers that he has under the *Auditor General Act* in connection with the examination of the accounts of Canada."

1970-71-72, c. 48

29. Section 15 of the French version of the *Unemployment Insurance Act*, 1971 is repealed and the following substituted therefor:

Vérification

"**15.** Le vérificateur général vérifie chaque année la comptabilité et les opérations financières de la Commission et en fait rapport au Ministre."

Amendments to French version

30. Whenever, in the French version, the expression "auditeur général" appears in any provision of an Act listed in the schedule to this Act, there shall in every case, unless the context otherwise requires, be substituted the expression "vérificateur général".

PART III

COMMENCEMENT

Coming into force

31. This Act shall come into force on a day to be fixed by proclamation.

APPENDIX B

FINANCIAL ADMINISTRATION ACT

EXTRACTS FROM PART XII

FINANCIAL ADMINISTRATION ACT

R.S., c. F-10 (amended)

Extracts from Part XII

CROWN CORPORATIONS

Financial Management

Books and systems

138. (1) Each parent Crown corporation shall cause

(*a*) books of account and records in relation thereto to be kept, and

(*b*) financial and management control and information systems and management practices to be maintained, in respect of itself and each of its wholly-owned subsidiaries, if any.

Idem

(2) The books, records, systems and practices referred to in subsection (1) shall be kept and maintained in such manner as will provide reasonable assurance that

(*a*) the assets of the corporation and each subsidiary are safeguarded and controlled;

(*b*) the transactions of the corporation and each subsidiary are in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(*c*) the financial, human and physical resources of the corporation and each subsidiary are managed economically and efficiently and the operations of the corporation and each subsidiary are carried out effectively.

Internal audit

(3) Each parent Crown corporation shall cause internal audits to be conducted, in respect of itself and each of its wholly-owned subsidiaries, if any, to assess compliance with subsections (1) and (2), unless the Governor in Council is of the opinion that the cost of such audits is not justified by the benefits to be derived therefrom.

Financial statements

(4) Each parent Crown corporation shall cause financial statements to be prepared annually, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with generally accepted accounting principles as supplemented or augmented by regulations made pursuant to subsection (6).

Form of financial statements

(5) The financial statements of a parent Crown corporation and of a wholly-owned subsidiary shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation or subsidiary.

Regulations

(6) The Treasury Board may, for the purposes of subsection (4), make regulations respecting financial statements either generally or in respect of any specified parent Crown corporation or any parent Crown corporation of a specified class, but such regulations shall, in respect of the preparation of financial statements, only supplement or augment generally accepted accounting principles. 1984, c. 31, s. 11.

Auditor's Reports

Annual auditor's report

139. (1) Each parent Crown corporation shall cause an annual auditor's report to be prepared, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with the regulations, on

(a) the financial statements referred to in section 138; and

(b) any quantitative information required to be audited pursuant to subsection (5).

Contents

(2) A report under subsection (1) shall be addressed to the appropriate Minister and shall

(a) include separate statements, whether in the auditor's opinion,

(i) the financial statements are presented fairly in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year,

(ii) the quantitative information is accurate in all material respects and, if applicable, was prepared on a basis consistent with that of the preceding year, and

(iii) the transactions of the corporation and of each subsidiary that have come to his notice in the course of his examination for the report were in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(b) call attention to any other matter falling within the scope of his examination for the report that, in his opinion, should be brought to the attention of Parliament.

Regulations

(3) The Treasury Board may make regulations prescribing the form and manner in which the report referred to in subsection (1) is to be prepared.

Separate reports

(4) Notwithstanding any other provision of this Part, the auditor of a parent Crown corporation may prepare separate annual auditor's reports on the statements referred to in paragraph 139(1)*(a)* and on the information referred to in paragraph 139(1)*(b)* if, in his opinion, separate reports would be more appropriate.

Audit of quantitative information

(5) The Treasury Board may require that any quantitative information required to be included in a parent Crown corporation's annual report pursuant to subsection 152(3) be audited.

Other reports

(6) The auditor of a parent Crown corporation shall prepare such other reports respecting the corporation or any wholly-owned subsidiary of the corporation as the Governor in Council may require.

Examination

(7) An auditor shall make such examination as he considers necessary to enable him to prepare a report under subsection (1) or (6).

Reliance on internal audit

(8) An auditor shall, to the extent he considers practicable, rely on any internal audit of the corporation being audited that is conducted pursuant to subsection 138(3). 1984, c. 31, s. 11.

Errors and omissions

140. (1) A director or officer of a Crown corporation shall forthwith notify the auditor and the audit committee of the corporation, if any, of any error or omission of which the director or officer becomes aware in a financial statement that the auditor or a former auditor has reported on or in a report prepared by the auditor or a former auditor pursuant to section 139.

Idem

(2) Where an auditor or former auditor of a Crown corporation is notified or becomes aware of any error or omission in a financial statement that the auditor or former auditor has reported on or in a report prepared by the auditor or former auditor pursuant to section 139, he shall forthwith notify each director of the corporation of the error or omission if he is of the opinion that the error or omission is material.

Correction

(3) Where an auditor or former auditor of a Crown corporation notifies the directors of an error or omission in a financial statement or report pursuant to subsection (2), the corporation shall prepare a revised financial statement or the auditor or former auditor shall issue a correction to the report, as the case may be, and a copy thereof shall be given to the appropriate Minister. 1984, c. 31, s. 11.

Auditors

Appointment of auditor

141. (1) The auditor of a parent Crown corporation shall be appointed annually by the Governor in Council, after the appropriate Minister has consulted the board of directors of the corporation, and may be removed at any time by the Governor in Council, after the appropriate Minister has consulted the board.

Auditor General

(2) On and after January 1, 1989, the Auditor General of Canada shall be appointed by the Governor in Council as the auditor, or a joint auditor, of each parent Crown corporation named in Part I of Schedule C, unless the Auditor General waives the requirement that he be so appointed.

Idem

(3) Subsections (1) and (2) do not apply in respect of any parent Crown corporation the auditor of which is specified by any other Act of Parliament to be the Auditor General of Canada, but the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a parent Crown corporation pursuant to subsection (1) and subsections (8) to (10) do not apply to him.

Exception

(4) Notwithstanding subsection (1), where the report referred to in subsection 139(1) is to be prepared in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the auditor of the subsidiary, and subsections (6) and (8) to (11) and section 142 apply in respect of such auditor as though the references therein to a parent Crown corporation were references to the subsidiary.

Criteria for appointment

(5) The Governor in Council may make regulations prescribing the criteria to be applied in selecting an auditor for appointment pursuant to subsection (1) or (4).

Re-appointment

(6) An auditor of a parent Crown corporation is eligible for re-appointment on the expiration of his appointment.

Continuation in office

(7) Notwithstanding subsection (1), if an auditor of a parent Crown corporation is not appointed to take office on the expiration of the appointment of an incumbent auditor, the incumbent auditor continues in office until his successor is appointed.

Persons not eligible

(8) A person is disqualified from being appointed or re-appointed or continuing as an auditor of a parent Crown corporation if he is not independent of the corporation, any of its affiliates, or the directors or officers of the corporation or any of its affiliates.

Independence

(9) For the purpose of this section,

(a) independence is a question of fact; and

(b) a person is deemed not to be independent if he or any of his business partners

(i) is a business partner, director, officer or employee of the parent Crown corporation or any of its affiliates, or a business partner of any director, officer or employee of the corporation or any of its affiliates,

(ii) beneficially owns or controls, directly or indirectly through a trustee, legal representative, agent or other intermediary, a material interest in the shares or debt of the parent Crown corporation or any of its affiliates, or

(iii) has been a receiver, receiver-manager, liquidator or trustee in bankruptcy of the parent Crown corporation or any of its affiliates within two years of his proposed appointment as auditor of the corporation.

Resignation

(10) An auditor of a parent Crown corporation who becomes disqualified under this section shall resign forthwith after becoming aware of his disqualification.

Qualifications preserved

(11) Nothing in this section shall be construed as empowering the appointment, re-appointment or continuation in office as an auditor of a parent Crown corporation of any person who does not meet any qualifications for such appointment, re-appointment or continuation established by any other Act of Parliament. 1984, c. 31, s. 11.

Resignation

142. A resignation of an auditor of a parent Crown corporation becomes effective at the time the corporation receives a written resignation from him or at the time specified in the resignation, whichever is later. 1984, c. 31, s. 11.

Special Examination

Special examination

143. (1) Each parent Crown corporation shall cause a special examination to be carried out, in respect of itself and its wholly-owned subsidiaries, if any, to determine if the systems and practices referred to in paragraph 138(1)*(b)* were, in the period under examination, maintained in a manner that provided reasonable assurance that *(a)* the assets of the corporation and each subsidiary were safeguarded and controlled; and

(b) the financial, human and physical resources of the corporation and each subsidiary were managed economically and efficiently and the operations of the corporation and each subsidiary were carried out effectively.

Time for examination

(2) A special examination shall be carried out at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined may require.

Plan

(3) Before an examiner commences a special examination, he shall survey the systems and practices of the corporation to be examined and submit a plan for the examination, including a statement of the criteria to be applied in the examination, to the audit committee of the corporation, or if there is no audit committee, to the board of directors of the corporation.

Resolution of disagreements

(4) Any disagreement between the examiner and the audit committee or board of directors of a corporation over a plan referred to in subsection (3) may be resolved

(a) in the case of a parent Crown corporation, by the appropriate Minister; and

(b) in the case of a wholly-owned subsidiary, by the parent Crown corporation that wholly owns the subsidiary.

Reliance on internal audit

(5) An examiner shall, to the extent he considers practicable, rely on any internal audit of the corporation being examined conducted pursuant to subsection 138(3).

Report

(6) An examiner shall, on completion of the special examination, submit a report on his findings to the board of directors of the corporation examined.

Contents

(7) The report of an examiner under subsection (6) shall include

(a) a statement, whether in the examiner's opinion, with respect to the criteria established pursuant to subsection (3), there is reasonable assurance that there are no significant deficiencies in the systems and practices examined; and

(b) a statement of the extent to which the examiner relied on internal audits.

Special report to appropriate Minister

(8) Where the examiner of a parent Crown corporation named in Part I of Schedule C is of the opinion that his report under subsection (6) contains information that should be brought to the attention of the appropriate Minister, he shall, after consultation with the board of directors of the corporation, report that information to the Minister and furnish a copy of the report to the board.

Idem

(9) Where the examiner of a wholly-owned subsidiary of a parent Crown corporation named in Part I of Schedule C is of the opinion that his report under subsection (6) contains information that should be brought to the attention of the appropriate Minister, he shall, after consultation with the boards of directors of the subsidiary and

corporation, report that information to the Minister and furnish copies of the report to the boards.

Special report to Parliament

(10) Where the examiner of a parent Crown corporation named in Part I of Schedule C is of the opinion that his report under subsection (6) contains information that should be brought to the attention of Parliament, he shall, after consultation with the appropriate Minister and the board of directors of the corporation, prepare a report thereon for inclusion in the next annual report of the corporation and furnish copies of the report to the board, the appropriate Minister and the Auditor General of Canada.

Idem

(11) Where the examiner of a wholly-owned subsidiary of a parent Crown corporation named in Part I of Schedule C is of the opinion that his report under subsection (6) contains information that should be brought to the attention of Parliament, he shall, after consultation with the appropriate Minister and the boards of directors of the subsidiary and corporation, prepare a report thereon for inclusion in the next annual report of the corporation and furnish copies of the report to the boards, the appropriate Minister and the Auditor General of Canada. 1984, c. 31, s. 11.

Examiner

144. (1) Subject to subsections (2) and (3), the auditor of a parent Crown corporation shall carry out a special examination.

Idem

(2) Where, in the opinion of the Governor in Council, a person other than the auditor of a parent Crown corporation should carry out a special examination, he may, after the appropriate Minister has consulted the board of directors of the corporation, appoint an auditor who is qualified for the purpose to carry out the examination in lieu of the auditor of the corporation and may, after the appropriate Minister has consulted the board, remove that qualified auditor at any time.

Exception

(3) Where a special examination is to be carried out in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the qualified auditor who is to carry out the special examination.

Applicable provisions

(4) Subject to subsection (5), subsections 141(8) to (10) and section 142 apply in respect of an examiner as though the references therein to an auditor were references to an examiner.

Auditor General eligible

(5) The Auditor General of Canada is eligible to be appointed an examiner and subsections 141(8) to (10) do not apply to him in respect of such an appointment. 1984, c. 31, s. 11.

Consultation with Auditor General

Consultation with Auditor General

145. The auditor or examiner of a Crown corporation may at any time consult the Auditor General of Canada on any matter relating to his audit or special examination and shall consult the Auditor General with respect to any matter that, in the opinion of the auditor or examiner, should be brought to the attention of Parliament pursuant to paragraph 139(2)*(b)* or subsection 143(10) or (11). 1984, c. 31, s. 11.

Right to Information

Right to information

146. (1) On the demand of the auditor or examiner of a Crown corporation, the present or former directors, officers, employees or agents of the corporation shall furnish such

(a) information and explanations, and

(b) access to records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the directors, officers, employees or agents are reasonably able to furnish.

Idem

(2) On the demand of the auditor or examiner of a Crown corporation, the directors of the corporation shall

(a) obtain from the present or former directors, officers, employees or agents of any subsidiary of the corporation such information and explanations as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the present or former directors, officers, employees or agents are reasonably able to furnish; and

(b) furnish the information and explanations so obtained to the auditor or examiner.

Reliance on reports

(3) An auditor or examiner of a Crown corporation may reasonably rely on any report of any other auditor or examiner. 1984, c. 31, s. 11.

Policy

Restriction

147. Nothing in this Part or the regulations shall be construed as authorizing the auditor or examiner of a Crown corporation to express any opinion on the merits of matters of policy, including the merits of

(a) the objects or purposes for which the corporation is incorporated, or the restrictions on the businesses or activities that it may carry on, as set out in its charter;

(b) the objectives of the corporation; and

(c) any business or policy decision of the corporation or of the Government of Canada. 1984, c. 31, s. 11.

Qualified Privilege

Qualified privilege

148. Any oral or written statement or report made under this Part or the regulations by the auditor or a former auditor, or the examiner or a former examiner, of a parent Crown corporation has qualified privilege. 1984, c. 31, s. 11.

Costs

Cost of audit and examinations

149. (1) The amounts paid to an auditor or examiner of a Crown corporation for preparing any report under section 139 or 143 shall be reported to the President of the Treasury Board.

Idem

(2) Where the Auditor General of Canada is the auditor or examiner of a Crown corporation, the costs incurred by him in preparing any report under section 139 or 143 shall be disclosed in the next annual report of the Auditor General and be paid out of the moneys appropriated for his office. 1984, c. 31, s. 11.

Audit Committee

Audit committee

150. (1) Each parent Crown corporation that has four or more directors shall establish an audit committee composed of not less than three directors of the corporation, the majority of whom are not officers or employees of the corporation or any of its affiliates.

Idem

(2) In the case of a parent Crown corporation that has less than four directors, the board of directors of the corporation constitutes the audit committee of the corporation and shall perform the duties and functions assigned to an audit committee by any provision of this Part and the provision shall be construed accordingly.

Duties

(3) The audit committee of a parent Crown corporation shall

(a) review, and advise the board of directors with respect to, the financial statements that are to be included in the annual report of the corporation;

(b) oversee any internal audit of the corporation that is conducted pursuant to subsection 138(3);

(c) review, and advise the board of directors with respect to, the annual auditor's report of the corporation referred to in subsection 139(1);

(d) in the case of a corporation undergoing a special examination, review, and advise the board of directors with respect to, the plan and reports referred to in section 143; and

(e) perform such other functions as are assigned to it by the board of directors or the charter or by-laws of the corporation.

Auditor or examiner's attendance

(4) The auditor and any examiner of a parent Crown corporation are entitled to receive notice of every meeting of the audit committee and, at the expense of the corporation, to attend and be heard thereat; and, if so requested by a member of the audit committee, the auditor or examiner shall attend any or every meeting of the committee held during his term of office.

Calling meeting

(5) The auditor or examiner of a parent Crown corporation or a member of the audit committee may call a meeting of the committee.

Wholly-owned subsidiary

(6) Where the report referred to in subsection 139(1) is to be prepared in respect of a wholly-owned subsidiary separately, subsections (1) to (5) apply, with such modifications as the circumstances require, in respect of the subsidiary as though

(a) the references therein to a parent Crown corporation were references to the subsidiary; and

(b) the reference in paragraph (3)*(a)* to the annual report of the corporation were a reference to the annual report of the parent Crown corporation that wholly owns the subsidiary. 1984, c. 31, s. 11.

Reports

Accounts, etc. to Treasury Board or appropriate Minister

151. (1) A parent Crown corporation shall provide the Treasury Board or the appropriate Minister with such accounts, budgets, returns, statements, documents, records, books, reports or other information as the Board or appropriate Minister may require.

Reports on material developments

(2) The chief executive officer of a parent Crown corporation shall, as soon as reasonably practicable, notify the appropriate Minister, the President of the Treasury Board and any director of the corporation not already aware thereof of any financial or other developments that, in the chief executive officer's opinion, are likely to have a material effect on the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives or on the corporation's requirements for funding.

Reports on wholly-owned subsidiaries

(3) Each parent Crown corporation shall forthwith notify the appropriate Minister and the President of the Treasury Board of the name of any corporation that becomes or ceases to be a wholly-owned subsidiary of the corporation. 1984, c. 31, s. 11.

Annual report

152. (1) Each parent Crown corporation shall, as soon as possible, but in any case within three months, after the termination of each financial year submit an annual report on the operations of the corporation in that year concurrently to the appropriate Minister and the President of the Treasury Board, and the appropriate Minister shall cause a copy of the report to be laid before each House of Parliament on any of the first fifteen days on which that House is sitting after he receives it.

Reference to committee

(2) An annual report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to the business and activities of the corporation submitting the report.

Form and contents

(3) The annual report of a parent Crown corporation shall include

(a) the financial statements of the corporation referred to in section 138;

(b) the annual auditor's report referred to in subsection 139(1);

(c) a statement on the extent to which the corporation has met its objectives for the financial year;

(d) such quantitative information respecting the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives as the Treasury Board may require to be included therein; and

(e) such other information as is required by this or any other Act of Parliament, or by the appropriate Minister, the President of the Treasury Board or the Minister of Finance, to be included therein;

and shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation and its wholly-owned subsidiaries, if any.

Idem

(4) In addition to any other requirements under this or any other Act of Parliament, the Treasury Board may, by regulation, prescribe the information to be included in annual reports and the form in which such information is to be prepared. 1984, c. 31, s. 11.

Annual consolidated report

153. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause a copy of an annual consolidated report on the businesses and activities of all parent Crown corporations for their financial years ending on or before the previous July 31 to be laid before each House of Parliament.

Reference to committee

(2) An annual consolidated report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to Crown corporations.

Contents

(3) The annual consolidated report referred to in subsection (1) shall include

(a) a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation;

(b) employment and financial data, including aggregate borrowings of parent Crown corporations; and

(c) such other information as the President of the Treasury Board may determine. 1984, c. 31, s. 11.

Quarterly report

153.1 (1) The President of the Treasury Board shall cause to be laid before each House of Parliament a copy of a report indicating, in respect of each quarter of each calendar year, the summaries and annual reports that under this Part were to be laid before that House in the quarter, the time at, before or within which they were to be laid and the time they were laid.

Attest

(2) The accuracy of the information contained in each quarterly report shall be attested by the Auditor General of Canada in his annual report to Parliament.

Time for tabling quarterly report

(3) A quarterly report shall be laid before each House of Parliament pursuant to subsection (1) on any of the first thirty days on which that House is sitting after the end of the quarter to which the report relates. 1984, c. 31, s. 11.

APPENDIX C

REPORTS OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE HOUSE OF COMMONS

REPORT TO THE HOUSE

Monday, February 11, 1985

The Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

1. In accordance with its permanent Order of Reference contained in the Permanent and Provisional Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1984 and, in particular, paragraphs 3.50 to 3.68, audit observations relating to the Department of Indian Affairs and Northern Development (the Department).

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

3. Your Committee has received the Department's updated response to the Auditor General's audit observations, as of December 31, 1984. Your Committee is not satisfied with this response.

A – Paragraphs 3.50-55: Inadequate Accounting for Contributions of $500 Million to Indian Bands

4. Your Committee notes that the Department's contribution payments to Indian bands, under Treasury Board's regulations, are conditional on the achievement of results which are subject to audit verification. The Department, following Government policy, has been transferring program delivery responsibilities to Indian bands. Implicitly, the transfer process gives Indian bands the responsibility to monitor performance under contribution arrangements. This is at odds with the Department's continuing responsibilities under these same arrangements for the stewardship of public funds.

5. The Auditor General informed your Committee that the transfer process had not been adequately planned and implemented, a situation that was unchanged from the findings of his 1980 comprehensive audit. Financial controls over contributions to Indian bands continued to be weak. One effect of this situation was that the independent auditors of many Indian bands either qualified or denied opinions on bands' financial statements.

6. The need for the Department to negotiate with Treasury Board to put in place a satisfactory system of financial controls over contributions to Indian bands was recognized by your Committee in its Sixth Report of June, 1981 (1st Session, 32nd Parliament). At that time, your Committee recommended that the Department and Treasury Board "...expedite and conclude (their) negotiations... over the establishment of appropriate controls for contributions to Indian bands" (Paragraph 12(d)).

7. Your Committee heard testimony that the Department had not made a submission to Treasury Board with respect to financial controls over contributions to Indian bands since 1982. Your Committee also heard that the Department's 1982 submission was deficient and that Treasury Board had requested a new submission prior to approving any further transfers of responsibilities to Indian bands. Your Committee considers the

Department's inaction in this regard to be an extremely urgent matter and supports the position of the Treasury Board not to approve further transfers until the Department has made an acceptable submission.

B – Paragraphs 3.56-59: Questionable Safeguards over the Release of Indian Capital Moneys

8. Your Committee heard from the Auditor General that the Department has released funds from Indian capital accounts based on a broad and possibly inaccurate interpretation of Section 64 of the Indian Act. This section of the Act allows the Department to release these funds, with the consent of the council of a band, for a number of specific purposes. However, the Auditor General found that in some cases the Department failed to consult with the band membership on expenditures and that the Department's procedures to ensure that moneys were spent for an authorized purpose were inadequate. All of this, in the Auditor General's view, exposed the Crown to potentially significant future legal liability.

9. The Auditor General noted that the Department has not followed the advice of the Department of Justice to seek a judicial opinion from the courts.

10. Your Committee considers that the Department must safeguard the Crown's interests. The Department should retain professional trust administrators and should use all procedures currently available to ensure that funds are legally released. The Department should also consider how to establish a non-governmental trust fund management system that will ensure proper financial administration and serve the diverse interests of Indian bands.

C – Paragraphs 3.60-68: Reimbursement of Education Costs Without Parliamentary Authority; Education Costs Paid Twice; and Loss Due to Unauthorized Issue of Timber Licence

11. In the case of the Department's reimbursement of education costs without Parliamentary authority, your Committee was concerned both by the disregard for Parliamentary authorization and by the inadequate monitoring of land tenure by the Crown which is the basis for the Department's funding of Indian education under the Indian Act. The Department's failure to seek a Supplementary Estimate when it sought public funds outside its statutory authority had the effect of hiding its activities from Parliamentary scrutiny.

12. With regard to the double-payment of education costs, your Committee believes that this case illustrates very well the consequences of inadequate financial controls over contributions to Indian bands. Your Committee was also concerned by the Department's preferential treatment of a provincial government as a creditor.

13. In the case of the loss due to an unauthorized timber licence, your Committee noted that, in addition to negligence in the licence renewal process, there had been inadequate consultation with the Indian band on whose lands the timber was cut.

Recommendations

14. Your Committee recommends that:

(a) the Department take urgent action on the following matters:

(i) the establishment of appropriate controls for contributions to Indian bands (Paragraph 6) as was recommended in your Committee's Sixth Report of June, 1981;

(ii) the implementation of procedures to ensure that Indian capital moneys are professionally administered and disbursed in accordance with law (Paragraph 10);

(iii) the implementation of sound procedures to ensure that the Department will always have proper Parliamentary authorization for its expenditures (Paragraph 11);

(iv) the improvement of existing financial controls (Paragraph 12); and

(v) the adoption of improved procedures for consultations with Indian bands (Paragraph 13).

(b) the Department report to the Auditor General with regards to an action plan for the implementation of the recommendations mentioned in (a) above by April 30, 1985;

(c) the Auditor General assess the aforementioned report of the Department and report his findings to your Committee by May 31, 1985;

(d) the Minister immediately seek a judicial opinion regarding the correct interpretation of Subsection 64(k) of the Indian Act in order to ensure that the Crown is not exposed to any future legal liability.

15. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 4 and 10* which includes this report) is tabled.

Respectfully submitted,

AIDEEN NICHOLSON
Chairman

REPORT TO THE HOUSE

Monday, April 1, 1985

The Standing Committee on Public Accounts has the honour to present its

SECOND REPORT

1. In accordance with its permanent Order of Reference contained in the Permanent and Provisional Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1984 and, in particular, chapter 13 – the comprehensive audit of the Department of Public Works (the Department).

2. In April, 1984, in its Second Report (2nd Session, 32nd Parliament), your Committee addressed many of the issues now before it with respect to the accommodation of government departments. At that time, your Committee found serious fault with the procedures of the Department of Public Works. In its present meetings, on the comprehensive audit of the Department, your Committee has seen little or no evidence of improvement. There continues to be a lack of cost-consciousness in the expenditure of public funds. Accommodation continues to be acquired without due regard for economy.

3. Your Committee noted the response of the Minister of Public Works to its April, 1984 Report. In a letter dated February 28, 1985, the Minister assured your Committee that the Department of Public Works will follow directives, policies and procedures for providing office accommodation as laid down by Treasury Board.

4. In a statement before your Committee, the newly appointed Deputy Minister of Public Works outlined the specific action plans his Department intends to develop and execute in order to improve the accountability and management practices of the Department.

Recommendation

5. Your Committee recommends that the Auditor General review the progress of the Department in devising and implementing specific action plans to improve its accountability and management practices and report to your Committee by August 30, 1985.

Compliance with Treasury Board Rules

6. The responsibilities of Treasury Board, which approves accommodation submissions, were also the subject of your Committee's 1984 Report. Your Committee continues to be disappointed by Treasury Board's failure to enforce its rules. Indeed, the issue of compliance with Treasury Board regulations, directives, policies and guidelines lies at the heart of the accommodation problem.

7. Treasury Board officials stated that it was "normal" that waste and mismanagement were identified through consideration of the Auditor General's findings in a Parliamentary committee. Your Committee takes strong exception to this point of view.

Treasury Board must ensure that proper controls are exercised and that its rules are complied with in order to avoid misuse of public funds.

8. Your Committee noted the Auditor General's finding that Treasury Board rules governing the accommodation of government departments, if followed, were adequate to ensure due regard for economy.

9. Your Committee considers a sound working relationship between the Department and Treasury Board to be the foundation of a well-managed accommodation program. Your Committee was therefore greatly concerned by the inept and ineffective reporting practices that were revealed in the testimony. For example, the authority to lease a large Ottawa building (Place de Ville, Tower C) was not complete and was left that way over a two-year period, until discovered by the Auditor General. This resulted in a retroactive approval of a major transaction. Your Committee also heard that a $42 million increase in the cost of a lease was authorized by a late-night telephone call and that Treasury Board approved a major submission from the Department that was incomplete in important respects.

10. Your Committee wishes to emphasize in the strongest possible terms its concern that Treasury Board insist on compliance with its policies and effectively monitor their implementation. Your Committee heard from the Auditor General that Treasury Board rules and regulations have been abused and ignored. For example, many departments do not follow Treasury Board rules governing utilization of office space. This resulted in departmentsoccupying up to 305,000 square metres of office space in excess of Treasury Board standards, at an annual cost to the taxpayer of approximately $120 per square metre.

11. Another important example of non-compliance with Treasury Board rules was the failure to enforce mandatory public tendering of lease proposals. In this regard, a witness stated that there was direction from Treasury Board to the Department to negotiate directly with a single contractor (the Campeau Corporation) rather than call public tenders. As a result, a $135 million lease (Journal Towers in Ottawa) was entered into without public tender when alternative space was available elsewhere at lower cost.

12. It has become increasingly evident to your Committee that there is a need for stronger controls within the Treasury Board and within departments and agencies to ensure that compliance with government regulations, policies and directives is taking place.

Recommendations

13. Your Committee therefore recommends that:

(a) The Minister of Public Works designate a senior official of his Department, at the Associate Deputy Minister level, to be a comptroller or "accounting officer" to ensure that all departmental submissions comply with the Treasury Board's regulations, policies and directives respecting accommodation and to ensure that there is proper and effective communication between the Department and Treasury Board;

(b) The President of the Treasury Board designate a senior official to ensure that all departmental submissions respecting accommodation comply with Treasury Board's regulations, policies and directives and where necessary, enforce compliance;

(c) The Treasury Board re-examine its common services policy in terms of responsibilities delegated to Public Works as the common services organization responsible for accommodation and amend this policy to enable enforcement by the Treasury Board; and

(d) The above Ministers respond in writing to your Committee with respect to recommendations (a), (b) and (c) above by May 31, 1985.

Weak Management of Accommodation

14. Your Committee considers that the provision of office accommodation within government should be a planned, rational activity, carried out in an economical and efficient manner. Your Committee was therefore greatly concerned by the lack of planning that became apparent from the Department's testimony. For example, the Department has not yet developed a long-term strategy for the accommodation of departments in the National Capital Region. As a result, negotiations for the renewal of leases have not been started early enough, leases have been allowed to expire and costly overhold situations have developed. Because no alternatives have been developed to reduce its dependency on a few large rented buildings in downtown Ottawa, the Department has no leverage when negotiating rents with major landlords. As a result of this situation, the President of the Treasury Board, in February, 1982, was moved to complain of "an exorbitant escalation in rents" paid by the government in the nation's capital.

15. Your Committee also questioned the Department's assessment of available space. For example, the Department, when renewing the lease of a large Ottawa building (Journal Towers), advised Treasury Board that no other space was available, and then promptly issued a lease tender call that revealed large quantities of available space. Your Committee also heard a description of ad hoc assignment and re-assignment of departments to buildings in Ottawa and Hull that resembled nothing so much as a gigantic game of musical chairs, played at the taxpayer's expense.

16. The Auditor General noted that the Department was "amateur" in not preparing a market analysis of the $145 million lease of the Journal Towers complex in Ottawa. Your Committee considers the Department's management of this transaction unacceptable for two reasons: first, there was no substantial market analysis comparable to industry standards to ensure economical use of public funds; and second, the Department misled Treasury Board when it claimed, in its submission, to have completed such an analysis.

17. In view of the importance of reliable information for sound decision-making, your Committee was greatly concerned by the Department's admission that its surveys of office space were lacking accurate and complete data. The Department has made no headway in improving these surveys over the last five years. The Auditor General informed your Committee that the Department's data bases remained incomplete and unreliable, in spite of the expenditure of large sums of money to improve them. Your Committee expects

the Department to ensure that its latest "facilities inventory system" will remedy this situation.

18. Another major example of weak management in the Department was the failure of senior management to make use of the internal audit function and implement the recommendations of their internal auditors. The Auditor General was impressed with the calibre of the Department's internal audit and with the quality of their recommendations to management, "most of which have not been followed".

19. Your Committee noted that approximately 760,000 square metres or 9% of the Department's space lay vacant as of April 1, 1984, at a considerable cost to the Crown. Your Committee considers that the Department's mismanagement of unoccupied space is inexcusable. Your Committee will hold the Department to account for its undertaking in testimony to have vacant space occupied by this Summer.

20. Your Committee also wishes to call the Department to account for a number of specific undertakings in its testimony with respect to the disposal of unused properties or the occupancy of vacant space. Among these properties and buildings were Block 56 in Vancouver, the Government of Canada building in Scarborough, the Dufferin St. site in Toronto, the Ottawa Teachers' College, the Mulligan building (Ottawa), the former Bank of Canada building (Ottawa), Place du Portage, Phase IV (Hull) and the Daly building (Ottawa).

Recommendations

21. With respect to weak management of accommodation, your Committee recommends that the Department:

(a) Develop a long-term plan for accommodation of government departments, including a rational plan-of-action for accommodation in the National Capital Region;

(b) Develop market analyses for major leasing transactions comparable to an acceptable industry standard;

(c) Implement a reliable inventory system to measure use of space;

(d) Make productive use of its internal audit function;

(e) Use or dispose of unused properties and occupy vacant space; and

(f) Report to the Auditor General with respect to its progress in implementing recommendations (a) to (e) above by July 31, 1985.

22. Your Committee recommends that the Auditor General assess the report of the Department mentioned in recommendation 21(f) above and report back to your Committee by August 30, 1985.

Failure to Inform Ministers

23. In view of public servants' responsibility to fully inform their Ministers, your Committee was concerned by testimony which indicated that Ministers, individually and collectively, were not adequately informed by their officials prior to making decisions. For example, the Auditor General informed your Committee that officials of the Department did not tell Treasury Board Ministers about a "package deal" involving the re-negotiation of leases for several Ottawa buildings owned by the Campeau Corporation. The Department negotiated these leases as a package deal but sought Treasury Board approval only on a building-by-building basis. When Treasury Board authority did not correspond with the Department's negotiating position, opportunities were lost and additional costs to the Crown of $42 million were incurred.

Misleading the Committee

24. With respect to the Centennial Towers building in Ottawa, your Committee compared present and past testimony (the latter in connection with the Committee's Second Report of April, 1984). In earlier testimony, senior officers of the Department explained the acquisition of Centennial Towers in terms of an urgent need to house the Canadian Security and Intelligence Service. No mention was made of ministerial involvement. In present testimony, the decision to acquire Centennial Towers has been entirely attributed to ministerial direction. Your Committee considers that it has received misleading testimony. Furthermore, your Committee noted that one official, in a 1983 television interview, directly contradicted his present testimony about ministerial involvement in this case.

Favoritism

25. The appearance of favoritism to one contractor for government services is a serious concern to your Committee.

26. Some of the testimony before your Committee indicated that the Department, in the lease of the Journal Towers complex in Ottawa from the Campeau Corporation, agreed to a rental rate substantially in excess of the rates then prevailing in the market. The Auditor General advised your Committee that the costs of upgrading the building, included in the rent, fell far short of the premium rental rate paid.

Implementation of Revenue Dependency

27. On April 1, 1985, the Department plans to introduce the first phase of the government's policy on revenue dependency by charging departments for certain accommodation services. Your Committee noted that an acceptable cost accounting system had not yet been implemented by the Department, even though such was recommended by the Glassco Commission in 1962. To implement an acceptable system of revenue dependency, an effective and proven cost accounting system is necessary. Your Committee expects the Department to demonstrate that its latest financial management system will meet this need and that this system will be acceptable to the Office of the Comptroller General.

Recommendations

28. With respect to revenue dependency, your Committee recommends that:

(a) The Department provide the Auditor General with progress reports on the implementation of revenue dependency at intervals of six months, beginning on October 1, 1985;

(b) The Department demonstrate, in the aforementioned reports, that an effective cost accounting system has been established; and

(c) The Auditor General assess the reports mentioned in recommendation 28(a) above and report back to your Committee.

Disclosure in Part III of the Estimates

29. Your Committee noted the Department's release of cost information on the lease-purchases of buildings in Part III of the Estimates for the fiscal year ending March 31, 1986. Your Committee encourages the Department to continue to expand upon such disclosures in the Estimates. Information on compliance with tendering rules should be similarly disclosed.

Recommendation

30. With respect to greater disclosure in Part III of the Estimates, your Committee recommends that the Department provide information on its compliance with Treasury Board directives, including the public tendering of contracts.

Architectural and Engineering Services

31. Your Committee noted that the Department devoted significant resources to architectural and engineering services. Your Committee considers that the Department must demonstrate the continuing need for these resources and clearly justify them in Part III of the Estimates.

Auditor General's Involvement in the Department's Audit Committee

32. Your Committee noted that the Auditor General has been invited to participate in the deliberations of the Department's Audit Committee. Your Committee views this as an important step in monitoring the implementation of audit recommendations by the Department's internal and external auditors.

33. A copy of the relevant Minutes of Proceedings and Evidence *(Issues Nos. 6, 7, 8, 9 and 14* which includes this report) is tabled.

Respectfully submitted,

AIDEEN NICHOLSON
Chairman

REPORT TO THE HOUSE

Monday, April 29, 1985

The Standing Committee on Public Accounts has the honour to present its

THIRD REPORT

1. In accordance with its permanent Order of Reference contained in the Permanent and Provisional Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1984 and, in particular, chapter 12 – the comprehensive audit of the Department of National Defence (the Department).

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

Objectives of Defence Procurement

3. In addition to military needs, defence procurement is expected to contribute to a number of important policy objectives of government. Your Committee noted that the Department was required to consider non-military objectives in the selection of major items of capital equipment, such as the CF-18 fighter aircraft and radar for the "DELEX" destroyer refit. Among these non-military objectives are industrial development and job creation through industrial offsets (Canadian production of components of foreign weapons systems), strategic development of key industrial sectors, stimulation of research and development, regional benefits, balance of trade objectives, and obligations under international accords, such as the Defence Production Sharing Arrangement with the United States.

4. The justification of extremely large expenditures for state-of-the-art weapons systems appears to depend, at least in part, on non-military benefits. Your Committee therefore considers that there is a need for an effective system to measure the attainment of non-military objectives in defence procurement.

Recommendations

5. Your Committee recommends that the Department:

(a) identify non-military objectives for each of its major capital projects in Part III of the Estimates;

(b) establish a system to measure the attainment of these non-military objectives, in conjunction with the departments of Regional Industrial Expansion and Supply and Services;

(c) report, in Part III of the Estimates, on the extent to which non-military objectives have been achieved through defence procurement; and

(d) respond to your Committee in writing with respect to the foregoing recommendations by July 31, 1985.

Management of Major Crown Projects

6. The Auditor General identified as a serious problem the failure of National Defence and other government departments to fully inform decision-makers of life cycle costs of major Crown projects. It is a matter of some concern to your Committee that Parliament and Treasury Board do not have an accurate estimate of the final cost of these projects when they approve them.

7. In the case of the CF-18 fighter aircraft, your Committee noted the Auditor General's finding that indispensable items had not been included in the original budget approved by Treasury Board.

8. The Department stated that an improvement has been made in the process of estimating life cycle costs for the Canadian Patrol Frigate project. Your Committee looks forward to a full accounting from the Department with regards to this improvement.

9. In the testimony it received on the long-term, multi-billion dollar contract to acquire the CF-18, your Committee sought assurances that adequate safeguards had been established to protect the Crown from unreasonable cost escalation over the life of the contract. Your Committee was concerned that the structure of the contracts, as pointed out by the Auditor General, could allow the contractor, McDonnell Douglas Corporation, to recover losses in the main or "prime mission vehicle" contract from the spare parts contract. Your Committee also noted that profits had been established as a percentage of indeterminate costs and that the extent and nature of economic adjustments in the contract appeared to favour McDonnell Douglas.

10. The Auditor General raised as a concern to your Committee the funding of capital expenditures on the CF-18 from the Department's operations and maintenance budget. This contravened Treasury Board authority and distorted the Department's budgeting process. The Department admitted that its 1979 project brief to Treasury Board lacked clarity and was subject to misinterpretation with respect to some of the budget items identified by the Auditor General. Your Committee considers that the Department should not have submitted, and Treasury Board should not have accepted, such a submission. Your Committee expects the Department to improve future submissions in this regard.

11. The Auditor General informed your Committee that many of the original price estimates for CF-18 spare parts were unrealistic and unreliable. Your Committee agrees with the Auditor General's observation that such unreliable estimates affect the Department's future management of the CF-18 program. Your Committee considers that the Department has an obligation to establish actual costs of spare parts at an early stage in contract negotiations in order to ensure a fair price and minimize the overall cost to the Crown.

12. The Department informed your Committee that less than 25% of CF-18 spare parts were acquired on a competitive basis directly from subcontractors. Your Committee noted that the Department could achieve cost savings through diversification of equipment

suppliers and direct purchases from original equipment manufacturers (known as "dual sourcing").

Recommendations

13. Your Committee recommends that the Department:

(a) establish life cycle costs at the start of each major capital project, including the Canadian Patrol Frigate project;

(b) include these life cycle costs in the initial project brief to Treasury Board;

(c) disclose life cycle costs of every major capital project in Part III of the Estimates;

(d) implement, where possible, dual sourcing of CF-18 spare parts and components; and

(e) respond to your Committee in writing with respect to the foregoing recommendations by July 31, 1985.

Improvement of Automatic Data Processing (ADP) Systems

14. The Auditor General informed your Committee that many of the Department's ADP functions were not satisfying user needs or operating efficiently. Moreover, the Auditor General found that many of these systems could not be expected to perform under emergency conditions.

15. Although your Committee noted that the Department had initiated corrective action since the 1982 Auditor General's Report in the area of ADP and personnel information systems, your Committee is concerned that insufficient resources are being devoted to these systems and that they are not able to function efficiently and effectively in the face of emergency conditions.

Recommendations

16. Your Committee recommends that:

(a) the Department report its progress and an action plan for further improvements in ADP and personnel systems to the Auditor General by July 31, 1985; and

(b) the Auditor General assess the aforementioned report of the Department and report back to your Committee by August 30, 1985.

Internal Audit

17. The Auditor General expressed a concern to your Committee with respect to weaknesses in the Department's internal audit function. There was a need for significant improvement in the internal audit of major capital projects. The Department also lacked the

capability to carry out comprehensive internal audit. Your Committee considers that the importance of the internal audit function in the Department is such that a senior official should be assigned responsibilities for the function. This official should ensure that needed improvements are made and that the internal audit function is upgraded to meet the standards set by the Comptroller General.

Recommendations

18. Your Committee recommends that the Department:

(a) designate a senior official, at the Associate Deputy Minister level, who would be the chief financial officer and comptroller and who would be responsible for the internal audit function;

(b) respond in writing to your Committee with respect to the foregoing recommendation by July 31, 1985; and

(c) report its progress and an action plan for further improvements in internal audit to the Auditor General by July 31, 1985.

19. Your Committee recommends that the Auditor General assess the report of the Department mentioned in recommendation 18(c) above and report back to your Committee by August 30, 1985.

20. A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 10, 11, 12 and 15* which includes this report) is tabled.

Respectfully submitted,

AIDEEN NICHOLSON
Chairman

REPORT TO THE HOUSE

Wednesday, May 22, 1985

The Standing Committee on Public Accounts has the honour to present its

FOURTH REPORT

1. In accordance with its permanent Order of Reference contained in the Permanent and Provisional Standing Orders of the House of Commons, your Committee has considered the Report of the Auditor General to the House of Commons for the fiscal year ended March 31, 1984 and, in particular, chapter 4, the Review of Cash Management.

2. The co-operation of the witnesses who appeared before your Committee is acknowledged and appreciated.

Management of the Function

3. The Auditor General informed your Committee that the responsibilities for cash management across government, shared by the Department of Finance, the Office of the Comptroller General and the Receiver General's department, are not clearly defined and are fragmented. No one organization has an overall responsibility for cash management, including the co-ordination of the function. As a consequence, your Committee found that significant opportunities to achieve savings had been lost. Your Committee considers that this is a serious situation which cannot be allowed to continue.

4. Your Committee believes that a clearly defined line of responsibility to a single official who is duly empowered under law to exercise his responsibilities is preferable to shared accountability, with decision-making carried on by interdepartmental committees.

5. Your Committee therefore strongly endorses the Comptroller General's acceptance of responsibility for cash management. However, your Committee is concerned that he does not have the mandate to carry out these responsibilities successfully. The Comptroller General must have authority to enforce compliance.

Recommendation No. 1

6. Your Committee recommends that the Financial Administration Act and other relevant Acts and regulations be amended to provide the necessary authority to the Comptroller General of Canada to be fully responsible for all aspects of cash management.

Negotiations with the Chartered Banks

7. Your Committee was very dissatisfied with the efforts to date of the Department of Finance to re-negotiate government banking arrangements. It is unacceptable to your Committee, in view of the costs cited by the Auditor General, that no face-to-face formal negotiations took place between May 1984 and April 19, 1985.

8. As an indication of its interest in the conclusion of the negotiations and the potential savings to taxpayers, your Committee insisted that both parties resume

negotiations. Your Committee understands that they have now met and negotiations are proceeding.

9. Your Committee considers that the Government should impose a timetable in order to ensure a settlement by August 30, 1985 of the different issues with the banking community. The Office of the Comptroller General then should proceed as quickly as ispractical with the implementation of the new banking arrangements.

10. In view of the above, your Committee believes that future negotiations should become the responsibility of the Comptroller General with support from the Department of Finance and the Department of Supply and Services.

Recommendations No. 2, 3, and 4

11. Your Committee recommends that:

(a) the Deputy Minister of Finance report in writing to your Committee by June 14, 1985 on the progress achieved to date on the current negotiations with the financial institutions;

(b) the Comptroller General, once the current negotiations are completed, be made responsible for the future negotiations on behalf of the Government of Canada with respect to the banking arrangements with the financial institutions; and

(c) the Government consider the tendering of the whole range of banking services with the financial institutions.

Deposit, Payment, Collection and Billing Practices

12. The Auditor General found that more prompt action by departments in the area of billing, collection, deposit and payment practices could produce substantial savings to the Government. In response to the Auditor General's criticism, the Comptroller General and the Deputy Receiver General informed your Committee that new procedures and techniques to improve cash management and minimize delays in cash deposits and transfers would be introduced during the 1985-86 fiscal year. Your Committee heard that some substantial savings will be achieved by March 31, 1986 as a result of these new procedures.

Recommendation No. 5

13. Your Committee recommends that the Comptroller General and the Deputy Receiver General provide your Committee with a progress report in writing by March 31, 1986 on the savings achieved through improved cash management procedures and practices.

14. A copy of the relevant Minutes of Proceedings and evidence (*Issues Nos. 5, 13 and 18* which includes this report) is tabled.

Respectfully submitted,

AIDEEN NICHOLSON
Chairman

REPORT TO THE HOUSE

Wednesday, May 22, 1985

The Standing Committee on Public Accounts has the honour to present its

FIFTH REPORT

In relation to its permanent Order of Reference contained in the Permanent and Provisional Standing Orders of the House of Commons, your Committee recommends that the Chairman, and the Vice-Chairman or a Committee Member, and the Clerk of the Committee or a Committee Research Officer attend the annual meeting of the Canadian Council of Public Accounts Committees to be held in Whitehorse, Yukon from July 7 to 11, 1985 and that the appropriate costs, including living and travel expenses, be paid.

A copy of the relevant Minutes of Proceedings and Evidence (*Issue No. 18* which includes this report) is tabled.

Respectfully submitted,

AIDEEN NICHOLSON
Chairman

APPENDIX D

REPORT ON QUARTERLY REPORTS

REPORT ON THE AUDIT OF QUARTERLY REPORTS ON CROWN CORPORATIONS TABLED BY THE PRESIDENT OF THE TREASURY BOARD

As required by section 153.1 (2) of Part XII of the Financial Administration Act, I have examined the Quarterly Reports to Parliament on Crown corporations tabled by the President of the Treasury Board for the four quarters indicated below:

	Tabled in Parliament	
Quarter Ended	**House of Commons**	**Senate**
September 30, 1984	December 13, 1984	December 13, 1984
December 31, 1984	January 28, 1985	February 5, 1985
March 31, 1985	May 14, 1985	May 15, 1985
June 30, 1985	September 18, 1985	September 19, 1985

This is my first report on these Quarterly Reports. The reports contain information about the timing of tabling by the appropriate Ministers, of summaries (and amendments to them) of Crown corporations' corporate plans, operating budgets, capital budgets and annual reports.

My examination included a review of the systems and procedures used by the Treasury Board to monitor the timing of tabling the summaries and annual reports in each House of Parliament and a verification of the information contained in each of the Quarterly Reports.

These four Quarterly Reports were laid before each House of Parliament in accordance with section 153.1 (1) and (3) of the Financial Administration Act and, based on my examination, I have concluded that the information contained in them is accurate and complete.

Kenneth M. Dye, F.C.A.
Auditor General of Canada